

Financial Markets This Week

25 OCTOBER 2024

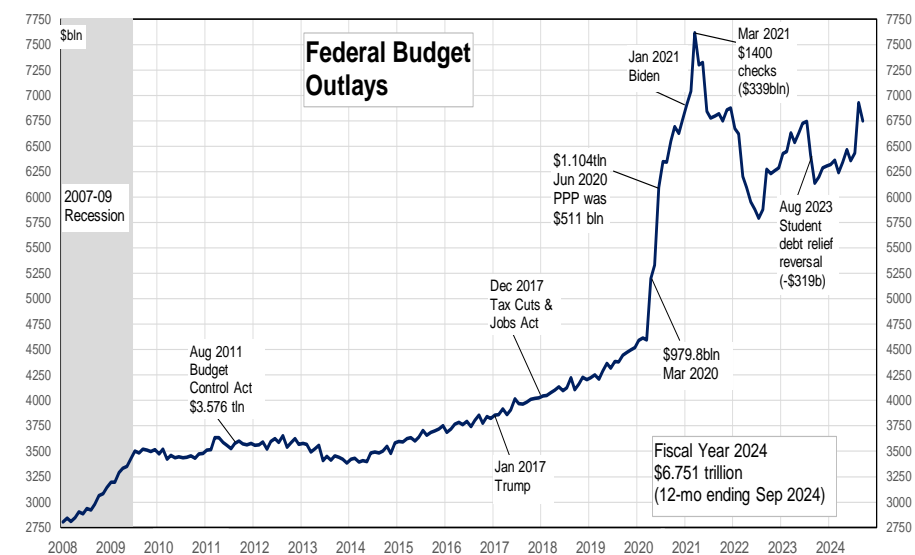
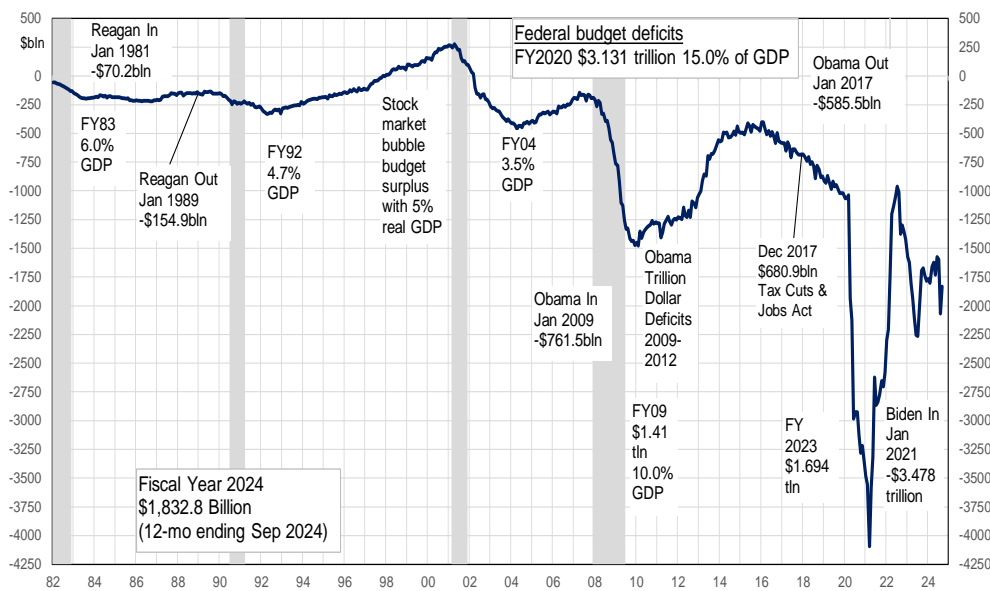
Christopher S. Rupkey, CFA
Chief Economist
crupkey@fwdbonds.com

\$1.8 TRILLION DEFICIT

The Federal budget deficit worries are back after the Fiscal Year (FY) budget results were released late last Friday which helped push 10-yr Treasury yields to new highs for the upswing of 4.21% on Monday, October 21. Tax and spending proposals by the Presidential candidates don't sound like the red ink is going to stop even if most of what is being proposed will never see the light of day next year. The FY2024 deficit was \$1.8 trillion, but the Fed's QT also was adding to the Treasury borrowing requirement, and Powell cut that demand for money from investors to \$300 billion from \$720 billion per year on June 1, 2024.

Federal outlays increased 10.1% or \$617.0 billion to \$6.751 trillion this year. We can argue about the progress made on Government spending based on differences in on/off Student Loan relief the last few years, but the bottom line is the pandemic is over, and somehow, Government outlays are trillions of dollars (a couple) higher than FY 2019 before the pandemic. Some of it is inflation, as social security benefits paid were \$888.1 billion in FY2019 and are \$400 billion higher from inflation and retiring baby boomers. Treasury's net interest is \$500 billion higher at \$881.6 billion in FY 2024.

Bond prices might have adjusted this week thinking the fiscal outlook can only deteriorate, but don't blame the aging of society and retirees' demands for social security benefits. The social security system is already broke, where the taxes it collects do not cover the retirement benefits it pays out.



You can see in the table here the red ink stretching back to FY2019. In FY 2024, receipts were \$216.8 billion less than retirement benefit payments, which of course is paid for by more Treasury auctions of debt to the public.

Social Security In/Out

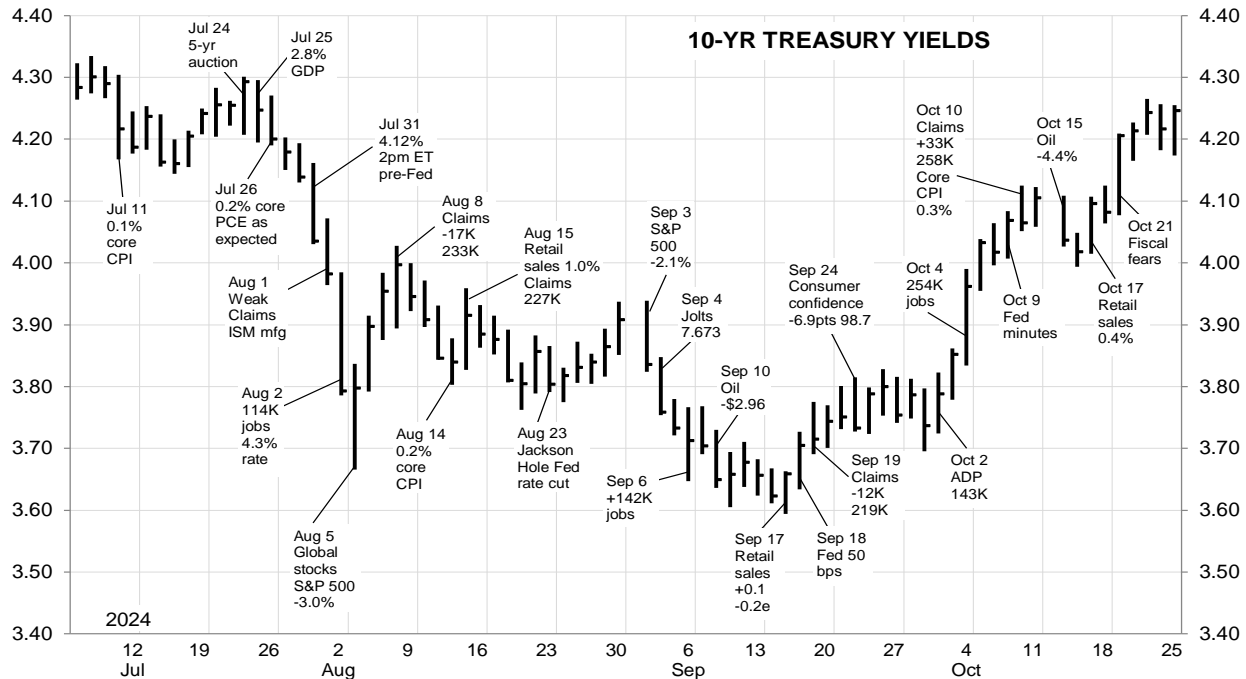
\$ bln	Receipts	Payments	Red/Black
FY2019	770.282	888.080	-117.798
FY2020	825.307	940.221	-114.914
FY2021	814.034	982.673	-168.639
FY2022	911.191	1,063.897	-152.706
FY2023	1,020.442	1,192.149	-171.707
FY2024	1,076.984	1,293.782	-216.798
Jun 24	119.003	109.928	9.075
Jul 24	80.712	109.873	-29.161
Aug 24	82.782	110.323	-27.541
Sep 24	90.872	110.436	-19.564

Another deficit issue bond traders and politicians howl at the moon about is interest payments on the Federal debt outstanding. In FY2024, interest payments increased \$253.7 billion to \$1.133 trillion, although the Fed stopped raising its rate at 5.5% in July 2023. This figure in the table here is gross interest, and net interest that subtracts out social security trust fund funny money nonmarketable debt accounting changes, is \$881.7 billion, an increase of \$222.5 billion. Whether the interest is \$1.133 trillion or \$881 billion, It is still a big number, keeping in mind total outlays are nearly \$6.8 trillion this year, so when will it stop going up? Without doing an exhaustive analysis (our best trading desk specialty), if 10-year yields do not come down dramatically, the \$14.3 trillion Treasury notes outstanding have an average

Federal Government Spending (\$bln) Where to cut?	4 Qtrs FY24		4 Qtrs FY23		Fiscal	Fiscal
	Q4 23-Q3 24		Q4 22-Q3 23		Year	Year
					Changes	% chg
TOTAL BUDGET OUTLAYS	6,751.552	6,134.526	617.026	10.1		
Legislative	6.835	6.512	0.323	5.0		
Judicial	9.480	8.995	0.485	5.4		
Agriculture	203.402	228.887	-25.485	-11.1		
Commodity Credit Corporation	5.524	7.318	-1.794	-24.5		
Food Stamps	106.754	134.634	-27.880	-20.7		
Child Nutrition	32.733	29.235	3.498	12.0		
Commerce	14.831	12.045	2.786	23.1		
Defense	826.277	775.872	50.405	6.5		
Military Personnel	191.945	183.898	8.047	4.4		
Operation Maintenance	332.047	317.563	14.484	4.6		
Procurement	152.259	141.749	10.510	7.4		
Research Development	137.960	121.954	16.006	13.1		
Military Construction	12.068	10.344	1.724	16.7		
Education	268.353	-41.108	309.461	--		
Office of Federal Student Aid	160.693	188.369	-27.676	-14.7		
Energy	49.315	34.423	14.892	43.3		
Health Human Services	1720.621	1708.521	12.100	0.7		
Medicare	1052.675	1024.288	28.387	2.8		
Medicaid States Grants	617.517	615.772	1.745	0.3		
Homeland Security	89.290	89.032	0.258	0.3		
Housing Urban Development	51.976	55.194	-3.218	-5.8		
Interior	17.088	15.865	1.223	7.7		
Justice	43.995	44.327	-0.332	-0.7		
Labor	65.672	87.531	-21.859	-25.0		
State Unemployment Benefits	36.611	30.181	6.430	21.3		
State	37.017	32.997	4.020	12.2		
Transportation	117.389	109.523	7.866	7.2		
FAA	23.096	23.824	-0.728	-3.1		
Federal Highway Admin.	61.523	54.018	7.505	13.9		
Treasury	1316.852	1106.950	209.902	19.0		
IRS	229.985	254.964	-24.979	-9.8		
Premium Tax Credit	110.195	82.597	27.598	33.4		
Earned Income Credit	60.011	55.468	4.543	8.2		
Child Tax Credit	26.247	28.768	-2.521	--		
Interest on Public Debt	1133.037	879.307	253.730	28.9		
Veterans Affairs	325.004	301.026	23.978	8.0		
Corps of Engineers	11.345	7.806	3.539	45.3		
Other Defense Civil Programs	66.220	68.928	-2.708	-3.9		
Environmental Protection	13.699	12.586	1.113	8.8		
Exec. Office of President	0.607	0.543	0.064	11.8		
International Assistance	35.794	36.050	-0.256	-0.7		
NASA	25.015	25.319	-0.304	-1.2		
National Science Foundation	9.392	8.951	0.441	4.9		
Personnel Management	126.173	122.508	3.665	3.0		
Small Business Admin.	33.197	26.072	7.125	27.3		
Social Security Admin.	1519.734	1416.328	103.406	7.3		
Retirement Benefits	1293.782	1192.149	101.633	8.5		
Federal Disability Payments	153.918	149.667	4.251	2.8		
Other Independent Agencies	77.793	134.620	-56.827	--		

rate of 2.73%, so the interest rate costs here will creep up, even if the \$6.0 trillion of T-bills outstanding (5.15% average yield) will be coming down as the Fed cuts rates. We did not get to the FY2024 budget results today, we wanted to surely, but you can read what Yellen and the head of the OMB said about the [FY2024 budget deficit right here](#).

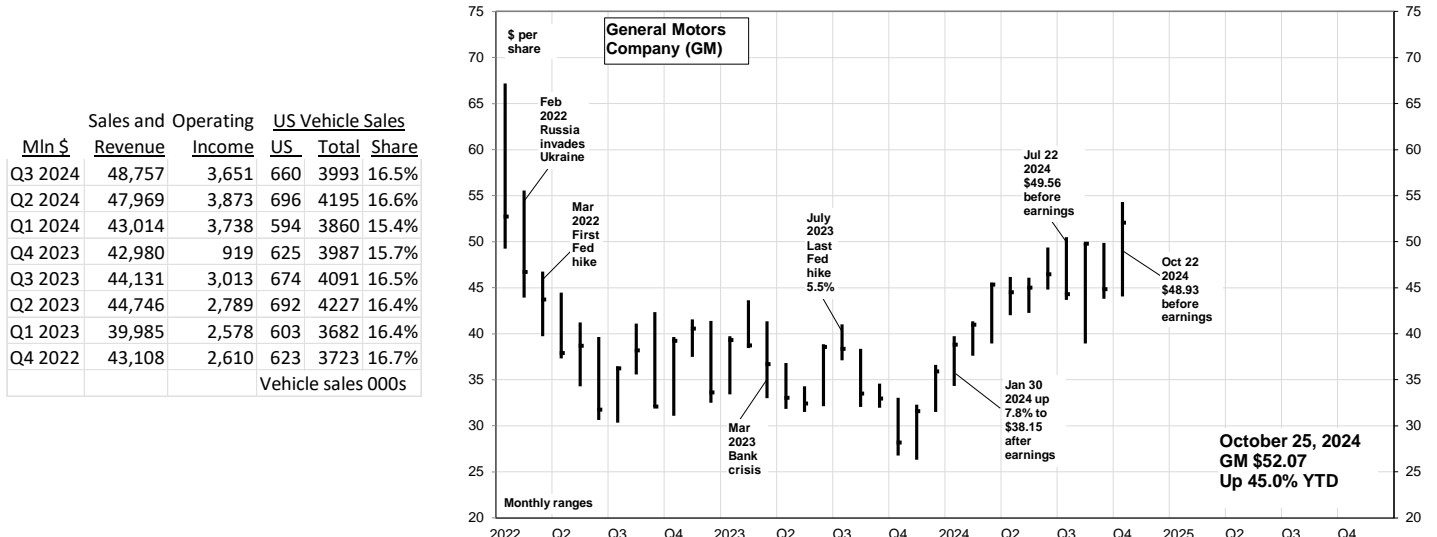
INTEREST RATES



10-yr Treasury yields jumped above 4.20% at the start of the week on Monday, and closed above this level, close to psychological support/resistance, all week. Fiscal fear is said to be the reason after the FY2024 1.8% trillion Federal budget deficit announced prime-time at 4pm ET Friday afternoon, October 18. More supply ahead to push bond yields higher with the Treasury’s quarterly refunding announcement next week, Wednesday, October 30 at 830am ET, and the Treasury quarterly new cash need estimates released Monday, October 28 at 3pm ET. The stock market reacted negatively to the rise in bond yields, but managed to rally back, almost breaking the record high close of 5,864.67 (Friday, October 18) in early Friday trading before falling back to unchanged on the day. Stay tuned. First look at Q3 real GDP for the “world’s best economy” and the jobs report coming up next week.

General Motors Company (GM) up 45.0% YTD

The stock jumped 9.8% to \$53.73 on Tuesday, October 22 following the earnings report before the open. This was better than the Q2 2024 earnings on July 23 that sent the stock down 6.4% to \$46.38 on the day, falling all the way to \$38.96 over the next couple of weeks. Q3 2024 US vehicle sales of 660 thousand are 16.5% of 3.993 million total US sales.



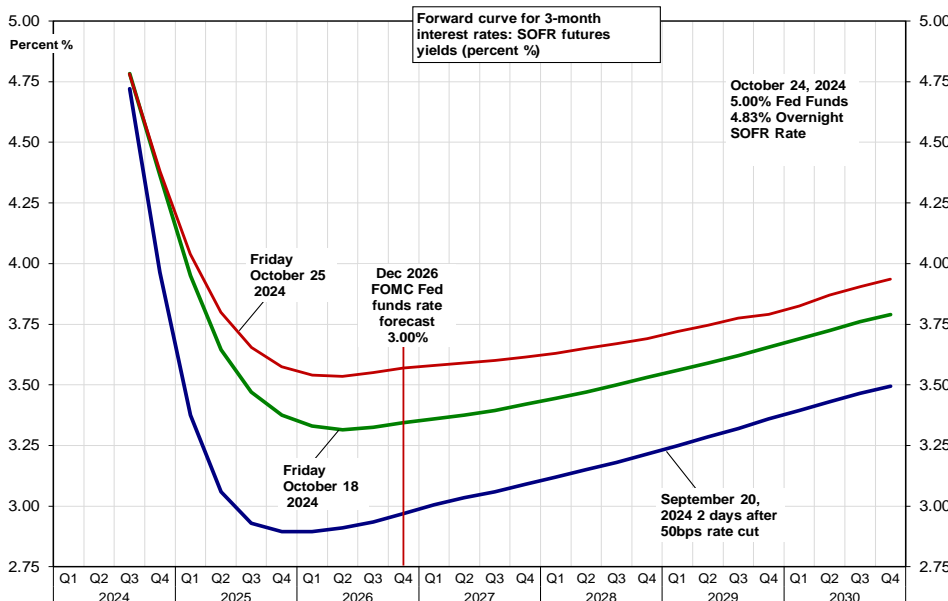
FEDERAL RESERVE POLICY

The Fed meets November 6-7, 2024 to consider its monetary policy. The market-based odds have been favoring a step-down to just a 25 bps rate cut since the larger 254K payroll jobs report on October 4. The October jobs report is Friday, November 1 and could change market expectations. But at the moment, Fed officials are cautious, and caution and uncertainty don't mean going big with a second 50 bps rate cut to 4.5%. The Bank of Canada went with a big 50 bps rate cut this week to 3.75%, and the total move down is now 125 bps from the 5.0% peak. Canada's unemployment rate has lifted from 4.8% to 6.5% in this cycle, where US unemployment has lifted just from 3.4 to 4.1 percent. Fed speakers this week all favor gradual rate cuts: Dallas Fed Logan was cautious, Cleveland Fed Hammack said there was more work to do on inflation. Minneapolis Fed Kashkari is data-dependent, but basically sees modest cuts in coming quarters, while San Francisco Fed Daly looked to the labor market and thought policy was still tight. Kansas City Fed Schmid was not in favor of outsized moves. Bond yields moved up on fiscal deficit fears, but February 2025 Fed funds futures still see 60 bps of rate cuts at the November, December, January meetings, about the same as last week—25 bps at two meetings and 50/50 on the need for a third 25 bps rate cut. Forward curve keeps shifting up, uncertain of Fed 3.0% Q4 2026 forecast.

Selected Fed assets and liabilities						Change from
Fed H.4.1 statistical release						3/11/20
billions, Wednesday data						3/11/20
Factors adding reserves						to Oct 23
U.S. Treasury securities	4357.656	4357.572	4364.466	4364.382	2523.031	1834.625
Federal agency debt securities	2.347	2.347	2.347	2.347		0.000
Mortgage-backed securities (MBS)	2282.088	2282.088	2282.078	2282.078	1371.846	910.242
Repurchase agreements	0.000	0.001	0.001	0.002	242.375	-242.375
Primary credit (Discount Window)	1.768	1.879	1.745	1.660	0.011	1.757
Bank Term Funding Program	59.717	66.833	68.883	71.468		
FDIC Loans to banks via Fed	0.000	0.000	0.000	0.000		
Paycheck Protection Facility	2.124	2.201	2.241	2.297		
Main Street Lending Program	10.145	10.135	10.419	10.407		
Municipal Liquidity Facility	0.000	0.000	0.000	0.000		
Term Asset-Backed Facility (TALF II)	0.000	0.000	0.000	0.000		
Central bank liquidity swaps	0.163	0.159	0.155	0.157	0.058	0.105
Federal Reserve Total Assets	7080.7	7090.3	7097.8	7097.6	4360.0	2720.652
3-month-Libor-%	4.83	4.86	4.83	4.92		3.680
SOFR %						
Factors draining reserves						
Currency in circulation	2355.493	2358.793	2356.532	2352.941	1818.957	536.536
Term Deposit Facility	0.000	0.000	0.000	0.000	0.000	0.000
U.S. Treasury Account at Fed	817.410	814.751	787.395	823.412	372.337	445.073
Treasury credit facilities contribution	4.958	4.958	4.958	4.958		
Reverse repurchases w/others	270.839	272.071	343.448	383.398	1.325	269.514
Federal Reserve Liabilities	3852.216	3861.423	3900.768	4000.346	2580.036	1272.180
Reserve Balances (Net Liquidity)	3228.462	3228.838	3197.045	3097.210	1779.990	1448.472
Treasuries within 15 days	64.724	61.915	36.365	40.177	21.427	43.297
Treasuries 16 to 90 days	217.895	178.430	212.598	211.961	221.961	-4.066
Treasuries 91 days to 1 year	486.965	529.229	526.419	523.232	378.403	108.562
Treasuries over 1-yr to 5 years	1467.656	1467.618	1469.577	1469.539	915.101	552.555
Treasuries over 5-yrs to 10 years	592.501	592.491	591.944	591.934	327.906	264.595
Treasuries over 10-years	1527.915	1527.890	1527.563	1527.538	658.232	869.683
Note: QT starts June 1, 2022	Change 10/23/2024		6/1/2022			
U.S. Treasury securities	-1413.123	4357.656	5770.779			
Mortgage-backed securities (MBS)	-425.358	2282.088	2707.446			

**March 11, 2020 start of coronavirus lockdown of country

Fed Policy-key variables					Long
	2024	2025	2026	2027	Term
Fed funds	4.4	3.4	2.9	2.9	2.9
PCE inflation	2.3	2.1	2.0	2.0	2.0
Core inflation	2.6	2.2	2.0	2.0	
Unemployed	4.4	4.4	4.3	4.2	4.2
GDP	2.0	2.0	2.0	2.0	1.8
September 2024 median Fed forecasts					



November Fed funds futures are not a clean read on the odds as the meeting is during the month. Market odds favor a 25 bps cut.

Fed funds futures call Fed policy			
Current target: October 25 -- 5.00%			
Rate+0.17	Contract	Fed decision dates	
4.555	Jan 2025	Nov 7, Dec 18*	
4.400	Feb 2025	Adds Jan 29	
Last trade, not settlement price			
* Not strictly true, Jan 2025 has Jan 29 Fed date, so 2 days could be a new interest rate			

Next up: September PCE inflation report Thursday, October 31

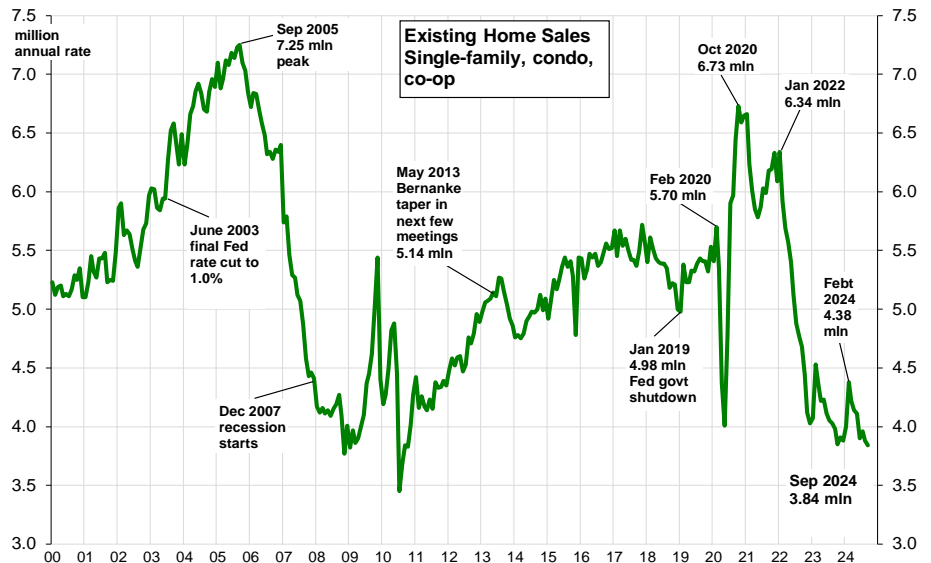
Monthly	2024												2023		
% Changes	Sep	Aug	Jul	Jun	May	Apr	Mar	Feb	Jan	Dec	Nov	Oct	Sep	Aug	Jul
Core CPI inflation	0.3	0.3	0.2	0.1	0.2	0.3	0.4	0.4	0.4	0.3	0.3	0.2	0.3	0.2	0.2
Core PCE inflation	0.25e	0.1	0.2	0.2	0.1	0.3	0.3	0.2	0.5	0.2	0.1	0.1	0.3	0.1	0.1
Core PCE YOY		2.7	2.6	2.6	2.7	2.9	3.0	2.9	3.1	3.0	3.2	3.4	3.7	3.8	4.3
Core CPI YOY	3.3	3.2	3.2	3.3	3.4	3.6	3.8	3.8	3.9	3.9	4.0	4.0	4.1	4.3	4.7

OTHER ECONOMIC NEWS

No recovery for existing home sales (Wednesday)

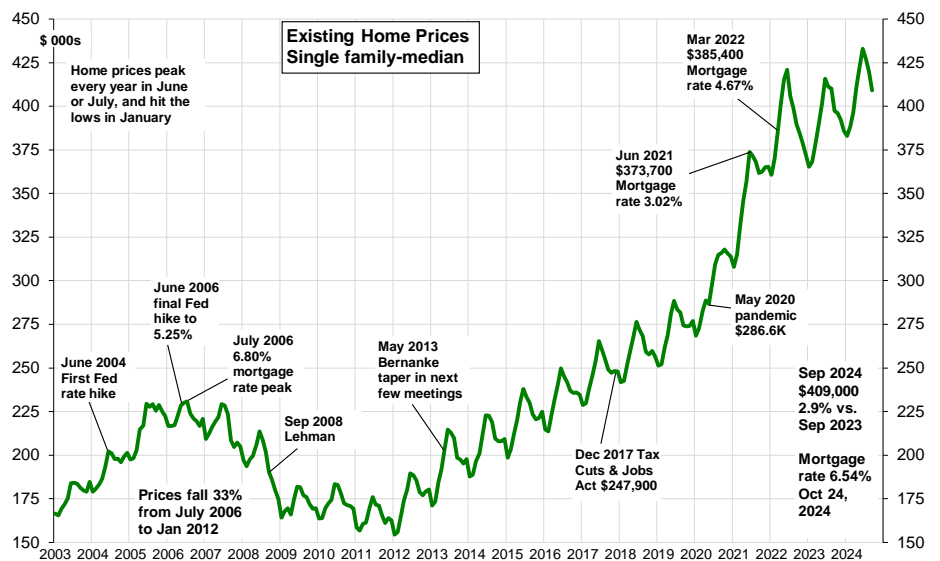
Breaking economy news. September existing home sales fell 1.9% to 3.84 million at an annual rate, barely a new low for the last couple of years. This is the second year in a row that sales have peaked in February during the winter of all things and slid down for the rest of the year. Maybe a seasonal adjustment problem. Activity is low however, no doubt about it with fewer homes on the market, probably in part because some don't want to give up their 3% mortgages.

Single-family existing home prices have peaked in June this year, summertime sales season highs, as they have every year since the pandemic. This home price index, unlike others, seems to show a slowdown in the home price bubble as June 2023 sales did not go higher than June 2022 which was a few months after the Fed started lifting rates.



Net, net, the turnover of the nation's housing stock remains at recessionary levels with no lift for existing home sales yet since the Federal Reserve started signaling a 180 degree turn in the direction of its interest rate policy late in the summer. Consumers continue to spend on goods and services at a solid rate, but for sales of the biggest of big ticket items like the purchase of a home, activity remains

at rock bottom levels. Mortgage rates have fallen over 100 bps from the 7%-plus peak level this time last year, but it has not set off a buying spree yet. Existing single-family home prices are falling for seasonal reasons from the record high peak during the summer selling season of \$432,900 in June down to \$409,000 in September, but this does not mean the housing price bubble is behind us. Inflation in shelter will remain a thorn in Fed

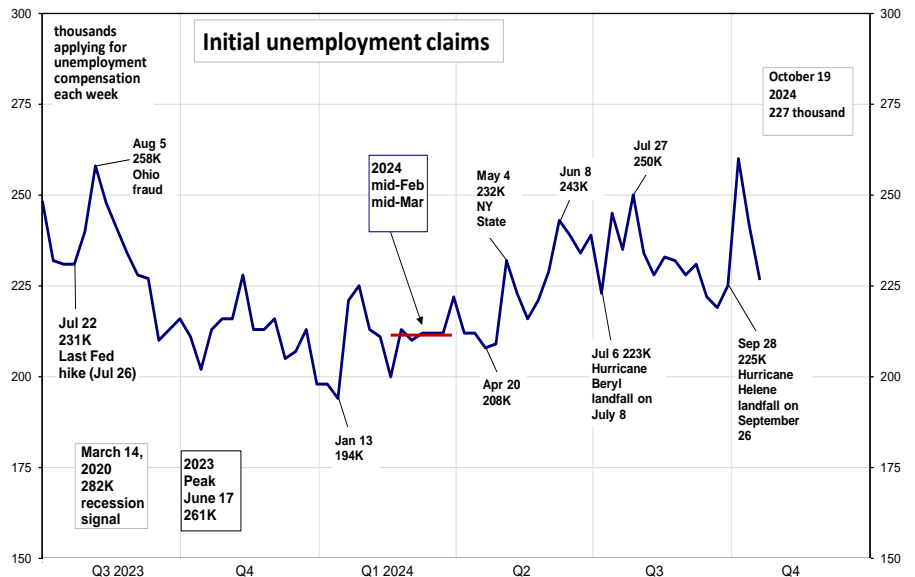


officials' sides, as it is stopping them from achieving their 2.0% inflation target. Stay tuned. No change in the fortunes of the real estate market yet, and with mortgage yields backing up lately, a broad-based recovery in the residential housing sector is likely to take longer than expected.

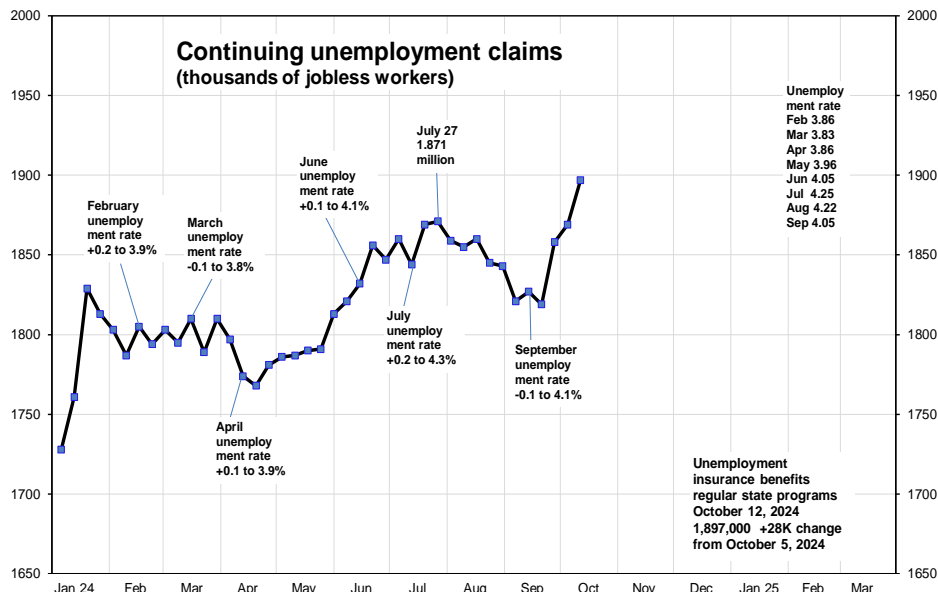
Jobless claims tumble (Thursday)

Breaking economy news. Weekly jobless claims fell 15K to 227K in the October 19 week and have now retraced the flare-up after Hurricane Helene hit Florida on September 26 and caused loss of life all the way up to North Carolina. The total number of Americans receiving benefits is still rising, up 28K to 1,897,000 in the October 12 week, a new high for the year, and it is also the survey week for the October employment report due to be released on Friday, November 1. It suggests the unemployment rate will rise back to the 4.3% high for the year, if you can believe your own eyes, looking at the chart below.

Net, net, weekly job layoffs tumble for a second week showing the labor market is not undergoing the kind of rapid deterioration that occurs as the economy slips over the cliff and down into the depths of recession. Four major hurricanes since August have turned the timeliest of economic indicators upside down in terms of correctly signaling the direction of where the economy goes next. Job layoffs fell



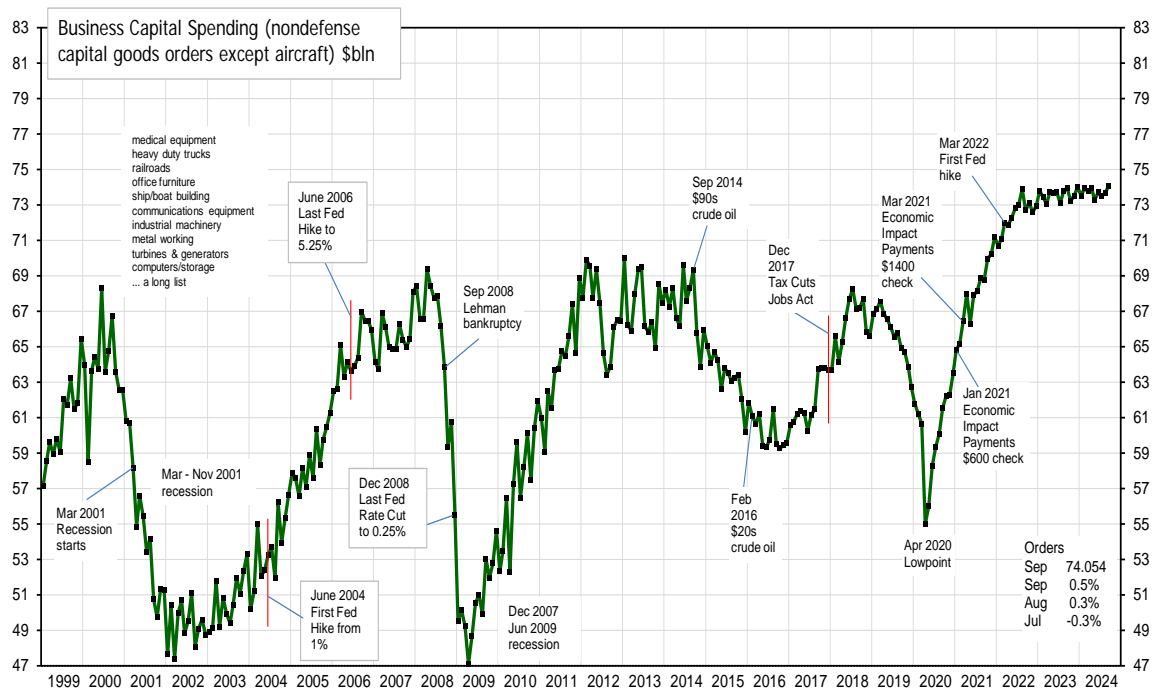
15K to 227K in the October 19 week and would have been even lower if not for Hurricane Milton coming ashore in Florida on October 9 which boosted Florida layoffs 4,275 in the October 19 week which bucked the trend of nearly every other state in the union. Stay tuned. The red alert danger signal for recession with jobless claims up at 260K two weeks ago has been turned off. Voters in the upcoming national elections can go back to the biggest economic issue they face which is the staggering rise in the cost of living or at least grocery store prices that Fed Chair Powell set off by failure to raise interest rates quickly enough to keep the inflation genie in the bottle. Inflation is always a monetary phenomenon. Bet on it. Give credit where credit is due and inflation is the responsibility of the central bank, not Congress and not the President.



Durable goods solid (Friday)

Breaking economy news. Durable goods report for September. Our proxy for monthly investment spending by companies is nondefense capital goods orders ex-aircraft which increased 0.5% in September following on August's 0.3% increase. It is hard to see in the graph here, but this does represent an all-time high. Investment in equipment, an increase of 9.8%, was off the charts in the second quarter 3.0% real GDP report, and spending on equipment should continue at double-digits perhaps in the third quarter when the data are reported Wednesday, October 30 at 830am ET. New orders overall were unchanged in September, but would have been up 0.5% excluding transportation. Nondefense aircraft and parts orders have been volatile, and fell 7.5% in September.

Net, net, September core capital goods orders that drive investment spending in the economy showed surprising strength for a second consecutive month with the strongest gain seen since June. There may be a quarter-end bunching of orders trend, but a detailed breakdown of today's September durable goods report is favorable for the economic outlook. Shipments of electrical equipment and appliances are literally flying out the factory door the last three months which matches up with one of the strongest quarters for consumer spending seen this year. Stay tuned. Business investment spending is solid and investment for today ensures a longer lasting economic expansion for tomorrow. Today's equipment purchases are laying the seeds for stronger economic growth in the fourth quarter and well into 2025. Sometimes election uncertainty every four years can cause companies to hold back their equipment purchases, but the data are telling a different story this year. Investment spending is strong and so is the US economy. Bet on it.



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