

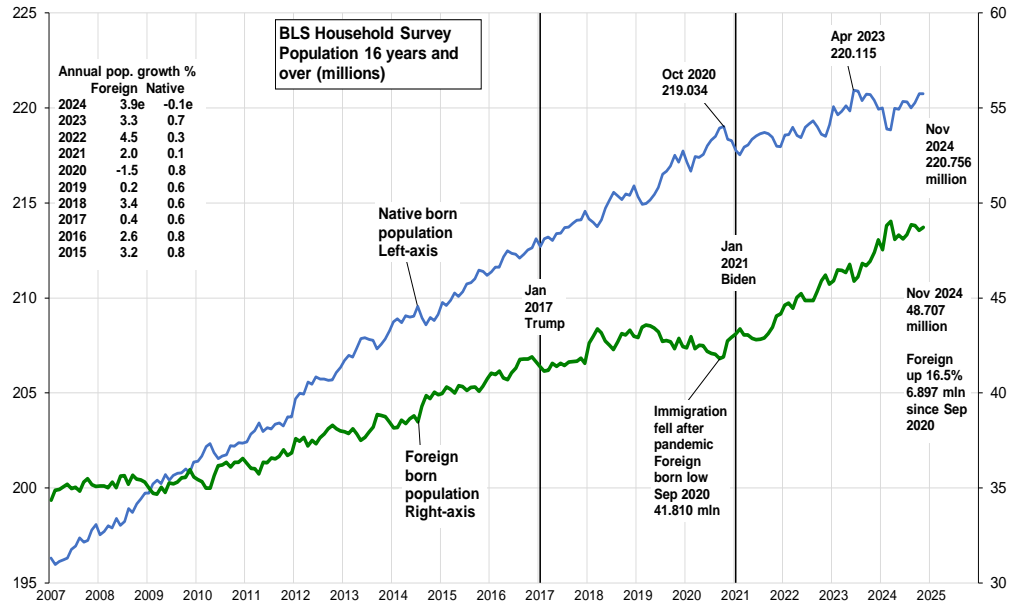
Financial Markets This Week

6 DECEMBER 2024

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

MIGRANT JOBS REPORT

November payroll jobs rebound 227K, after 36K in October that was held down by hurricanes and a Boeing strike. If we can take a minute to look at the population estimates that are in there behind the BLS Household Survey employment data (unemployment rate); any economy generally grows faster when the population is steadily increasing.



Powell said in a Wednesday interview, along with giving us some unscripted personal details of his life, like he went to Europe to play guitar when he was young and could astound his friends in his youth and even later by pronouncing words backwards (which explains a lot); he said that real GDP was stronger in 2023 due to immigration. We guess he is not expecting to be reappointed. Real GDP was faster in 2023 despite Fed “recession-magnitude” rate hikes to the 5.5% peak in July that year; Q4/Q4 real GDP as the Fed measures it was 3.2% 2023 from 1.3% in 2022, year-on-year real GDP same story but more smoothed 2.9% in 2023 from 2.5% in 2022. The foreign born population of the U.S. did accelerate after Biden, 4.5% in 2022 and 3.3% in 2023. Since the pandemic low, the foreign born population is up 16.5% or 6.897 million to 48.707 million in November 2024. But before you rush to judgment about immigration. What is going on with the native born population? Well, it is slowing. The birth rate is declining and the baby boom generation is 60 to 78 years old and on their way out. Unless you are President. The native born population crested at 219.034 million in October 2020, moved sideways, then made another record high of 220.115 million in April 2023, but is moving sideways again. The situation will only get worse in coming decades, and the only workers to take jobs will be foreign born.

Foreign Born 18.1% of Population			
Thousands	Nov 2024	Nov 2023	Change
Foreign born			
Population	48,707	47,412	1,295
Employed	30,823	30,422	401
Unemployed	1,449	1,085	364
Unempl rate	4.5	3.4	1.1
Not in labor force	16,435	15,906	529
Native born			
Population	220,756	220,410	346
Employed	130,633	131,727	-1,094
Unemployed	5,259	4,743	516
Unempl rate	3.9	3.5	0.4
Not in labor force	84,864	83,940	924
Civilian noninstitutional population 16 years and over, not seasonally adjusted			

To conclude, clearly last month's employment report was just a bump in the road to economic prosperity. The economy is doing just fine, and the hopes for multiple Fed rate cuts next year are literally dying on the vine. The economy's strength is just another sign that the Federal Reserve's interest rates are not at restrictive levels that slow growth. There were 227K more payroll jobs in November and after revisions, the storm and strike-related slowdown in October was 36K, and September's gain was solid at 255K. The labor market's switch is back on again. Washington does not need to be tinkering with measures to boost the economy as jobs are plentiful, and the Fed forecasts for multiple rate cuts in 2025 look to be increasingly unwise as the inflation fire has not been put out with core consumer price increases still elevated and another pop in wages or average hourly earnings in this month's report. Fed funds

Payroll jobs rebound in November

Dec. 2023		Nov 24	Oct 24	Sep 24	11 months Dec 23 to Nov 24	12 months Dec 22 to Dec 23
Totals						
millions						
157.304	Nonfarm Payroll Employment	227	36	255	1984	3013
134.228	Total Private (ex-Govt)	194	-2	222	1570	2304
21.723	Goods-producing	34	-44	15	117	275
0.600	Mining	2	1	2	1	15
12.960	Manufacturing	22	-48	-12	-73	26
1.063	Motor Vehicles & parts	0	-3	-5	-4	32
1.108	Computer/electronics	-4	-4	-1	-19	1
1.729	Food manufacturing	-1	-1	-1	13	10
8.120	Construction	10	2	26	193	236
5.148	Specialty trade contractors	9	3	17	120	135
112.505	Private Service-providing	160	42	207	1453	2029
28.867	Trade, transportation, utilities	-23	-4	20	165	161
15.603	Retail stores	-28	-4	7	20	118
3.209	General Merchandise	-15	-4	0	59	118
3.247	Food & Beverage stores	-3	8	3	21	24
6.521	Transportation/warehousing	3	-4	8	107	-69
1.552	Truck transport	3	-1	0	-3	-35
0.570	Air transportation	0	-1	-1	5	40
1.060	Couriers/messengers	-2	-2	4	44	-10
1.767	Warehousing and storage	-1	-4	-4	5	-99
3.012	Information	0	-6	1	-26	-83
0.494	Computing, data, web hosting	1	-1	-1	0	8
9.233	Financial	17	6	6	47	88
2.997	Insurance	5	2	0	38	50
2.496	Real Estate	4	6	3	20	63
1.378	Commercial Banking	0	0	1	-17	-17
1.115	Securities/investments	1	1	3	10	33
22.882	Professional/business	26	-23	22	72	149
2.765	Temp help services	2	-33	5	-118	-217
2.558	Management of companies	-1	2	4	7	15
1.673	Architectural/engineering	10	1	-1	45	39
2.525	Computer systems/services	1	-2	3	25	41
1.194	Legal services	1	2	1	-9	12
1.158	Accounting/bookkeeping	-1	-2	0	13	26
25.831	Education and health	79	67	91	876	1058
5.440	Hospitals	19	11	17	194	194
8.635	Ambulatory health care	22	44	32	325	345
3.843	Educational services	7	3	9	57	93
16.816	Leisure and hospitality	53	2	61	253	561
1.924	Hotel/motels	29	3	48	10	70
12.292	Eating & drinking places	4	4	39	153	309
23.076	Government	33	38	33	414	709
2.360	Federal ex-Post Office	1	3	3	39	82
5.404	State government	20	19	22	130	273
2.637	State Govt Education	12	10	15	44	183
14.711	Local government	15	17	7	244	351
8.039	Local Govt Education	6	4	-3	92	162

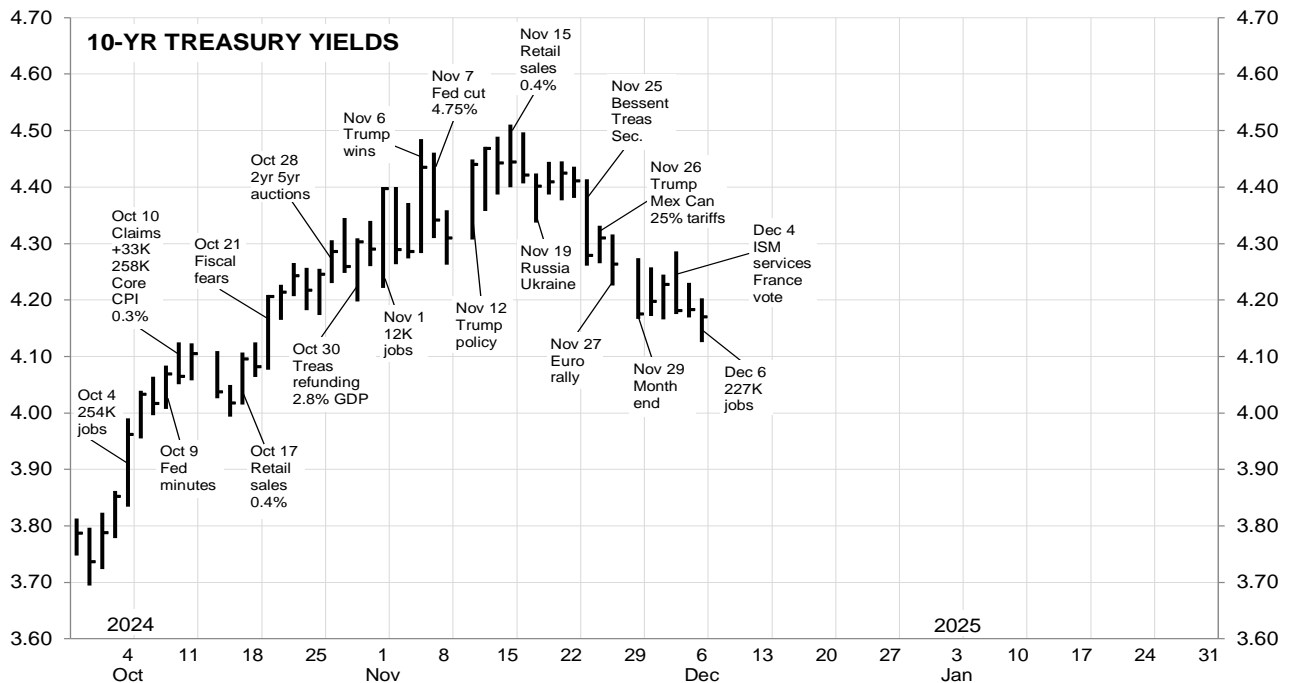
future have discounted 22 bps of a 25 bps rate cut at the final Fed meeting of the year, but sometimes you have to wonder why cut rates at all as the economy looks perfect except for the slightly elevated rate of unemployment. Real GDP is running 3% this quarter. What's not to like.

Monthly changes (000s)	Nov	Oct	Sep	Aug	Jul
Payroll employment	227	36	255	78	144
Private jobs	194	-2	222	37	99
Leisure/Hospitality jobs	53	2	61	9	38
HH Employment Survey*	-355	-368	430	168	67
Unemployment rate %	4.2	4.1	4.1	4.2	4.3
Participation rate %	62.5	62.6	62.7	62.7	62.7
Not in labor force (mln)	101.177	100.809	100.381	100.306	100.215
... and Want A Job (mln)	5.486	5.666	5.697	5.637	5.600
Average hourly earnings	\$35.61	\$35.48	\$35.33	\$35.22	\$35.07
MTM % Chg	0.4	0.4	0.3	0.4	0.2
YOY % Chg	4.0	4.0	3.9	3.9	3.6

* Household (telephone) Survey of employment behind unemployment rate

P.S. You may have noticed the Household Survey of employment plunged 355K in November and 368K in October, the unemployment rate just missed 4.3% (4.246). Same story. Payroll employment has to decline to forecast a recession.

INTEREST RATES

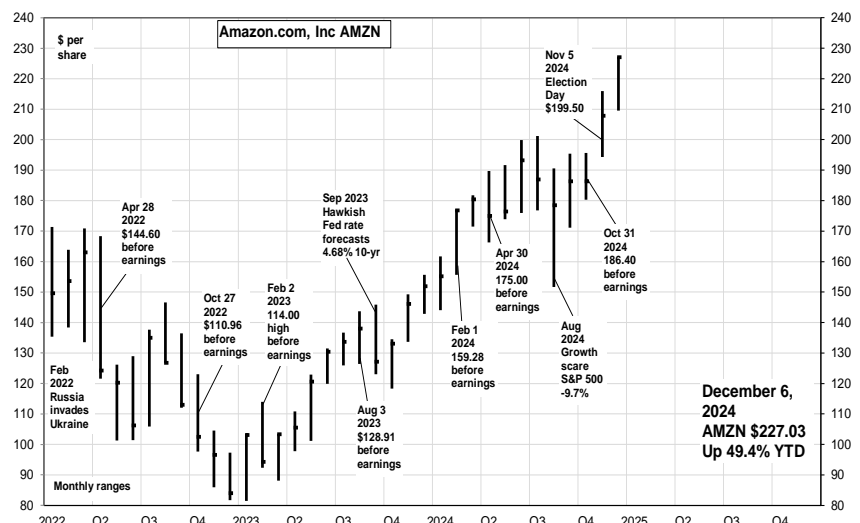


With the 227K jobs number news of the week on Friday, the bond market had a confused response at least in the first minute of trading with 10-yr yields about 4.187% at 830am data release time. Yields fell as low as 4.13% eventually, before closing at 4.17% at the end of the week. The big move down in yields this week was from 4.28% around the NY open on Wednesday, December 4. On Wednesday, the ISM services index fell, and the French government lost a no-confidence vote. Yields fell, so much for saying the bond market thinks Trump's economic agenda is inflationary. The 10-yr yield peak was 4.51% on November 15. The lesson is the bond market does not think. The stock market this week went its own way higher for the most part with record high closes each day except for Thursday. The S&P 500 closed Friday up 27.7% for the year, stocks were up 21.2% YTD on Election Day.

Amazon.com, Inc. (AMZN) up 49.4% YTD

The stock popped 6.2% the day after earnings were released on Thursday, October 31. Operating income keeps rising, \$17.4 billion Q3 2024 11.0% higher than a year ago, with AWS income of \$10.5 billion. There was a time in 2022 that there was no income besides that from AWS. Now Amazon is a top investment pick of many Wall Street firms with high expectations that the e-commerce share of US retail sales will continue to climb in coming years.

Calendar Year	Net Sales	Operating Income	AWS Sales	AWS Income	Income minus AWS
Q3 2024	158,877	17,411	27,452	10,447	6,964
Q2 2024	147,977	14,672	26,281	9,334	5,338
Q1 2024	143,313	15,307	25,037	9,421	5,886
Q4 2023	169,961	13,209	24,204	7,167	6,042
Q3 2023	143,083	11,188	23,059	6,976	4,212
Q2 2023	134,383	7,681	22,140	5,365	2,316
Q1 2023	127,358	4,774	21,354	5,123	-349
Q4 2022	149,204	2,737	21,378	5,205	-2,468
Q3 2022	127,101	2,525	20,538	5,403	-2,878
Q2 2022	121,234	3,317	19,739	5,715	-2,398
Q1 2022	116,444	3,669	18,441	6,518	-2,849

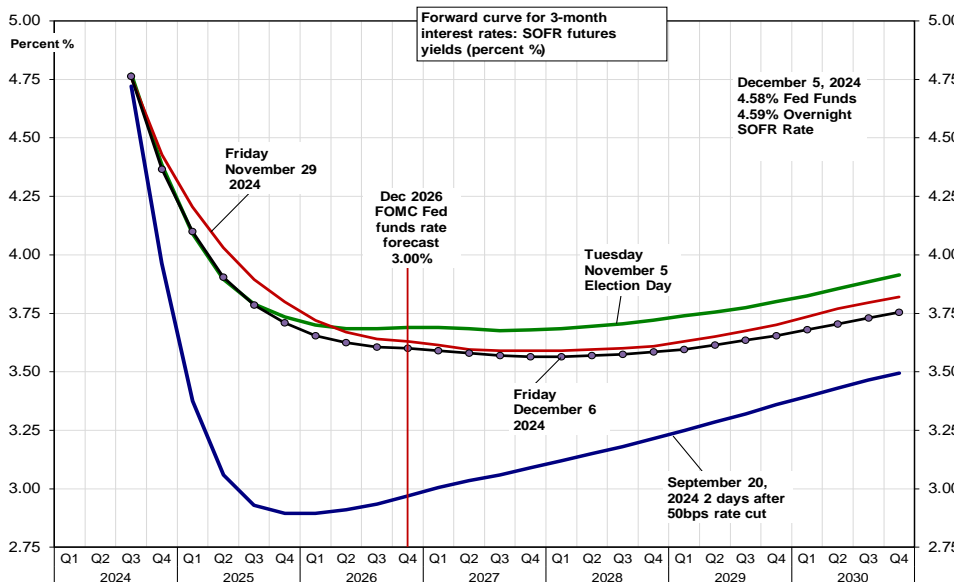


FEDERAL RESERVE POLICY

The Fed meets December 17-18, 2024 to consider its monetary policy. We would cut rates 25 bps more to 4.5%, and then put the forecasts at 4.0% in 2025 and 3.5% in 2026. The economy does not appear to be slowing appreciably with the current level of rates. The FOMC thought neutral was 4.25% in 2012, so 3.5% neutral now seems more than reasonable. No change in story from last week. Chicago Fed President Goolsbee said on Friday that there were likely to be some upcoming meetings that were very close calls. Just to remember, the original September forecast had 10 votes for a 4.5% Fed funds rate at year-end, and 9 votes for just 4.75% where it is now. Powell's interview on Tuesday gave some helpful tips on if you want to get a big job, go around your boss and knock on the boss's boss's door like he did for his U.S. Treasury position in the 80s (didn't he do that to get the Fed Chair job with Trump 1.0?), but his major comment that got headlined, something about they could to be a little more cautious with rate cuts because the economy was doing okay, that quote could merely mean that they don't need to cut every meeting anymore, but that would have been the case anyway with the September forecasts being just 100 bps of cuts in 2025 to be spread over the eight scheduled meetings.

Selected Fed assets and liabilities						Change from 3/11/20 to Dec 4
Fed H.4.1 statistical release billions, Wednesday data	4-Dec	27-Nov	20-Nov	13-Nov	3/11/20*	
Factors adding reserves						
U.S. Treasury securities	4315.545	4323.134	4322.938	4340.060	2523.031	1792.514
Federal agency debt securities	2.347	2.347	2.347	2.347	2.347	0.000
Mortgage-backed securities (MBS)	2248.982	2248.982	2262.279	2265.963	1371.846	877.136
Repurchase agreements	0.007	0.000	0.011	0.006	242.375	-242.368
Primary credit (Discount Window)	2.430	2.498	2.747	1.830	0.011	2.419
Factors draining reserves						
Bank Term Funding Program	17.147	18.509	21.423	26.395		
FDIC Loans to banks via Fed	0.000	0.000	0.000	0.000		
Paycheck Protection Facility	1.992	2.009	2.014	2.042		
Main Street Lending Program	8.468	8.457	9.945	10.153		
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	0.101	0.128	0.132	0.128	0.058	0.043
Federal Reserve Total Assets	6946.5	6955.5	6974.9	7018.3	4360.0	2586.511
3-month Libor % SOFR %	4.59	4.57	4.56	4.59	1.15	3.440
Factors draining reserves						
Currency in circulation	2363.572	2362.860	2358.202	2361.352	1818.957	544.615
Term Deposit Facility	0.000	0.000	0.000	0.000	0.000	0.000
U.S. Treasury Account at Fed	815.011	782.704	737.834	808.857	372.337	442.674
Treasury credit facilities contribution	3.461	3.461	4.958	4.958		
Reverse repurchases w/others	162.866	169.815	217.793	238.106	1.325	161.541
Federal Reserve Liabilities	3730.388	3721.477	3707.587	3826.203	2580.036	1150.352
Reserve Balances (Net Liquidity)	3216.149	3234.035	3267.319	3192.048	1779.990	1436.159
Treasuries within 15 days	14.153	40.733	49.439	74.216	21.427	-7.274
Treasuries 16 to 90 days	280.053	244.124	232.067	205.975	221.961	58.092
Treasuries 91 days to 1 year	450.372	455.496	458.822	486.014	378.403	71.969
Treasuries over 1-yr to 5 years	1487.098	1499.246	1499.158	1452.218	915.101	571.997
Treasuries over 5-yrs to 10 years	548.221	549.009	548.983	593.297	327.906	220.315
Treasuries over 10-years	1535.648	1534.525	1534.468	1528.341	658.232	877.416
Note: QT starts June 1, 2022	Change	12/4/2024	6/1/2022			
U.S. Treasury securities	-1455.234	4315.545	5770.779			
Mortgage-backed securities (MBS)	-458.464	2248.982	2707.446			
**March 11, 2020 start of coronavirus lockdown of country						

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



All but 3 bps of a 25 bps rate cut is forecast in December. All but 5 bps of a 25 bps rate cut to 4.25% is forecast in March 2025.

Fed funds futures call Fed policy	
Current target: December 6 -- 4.75%	
Rate+0.17 Contract	Fed decision dates
4.530 Jan 2025	Dec 18*
4.460 Feb 2025	Adds Jan 29
4.300 Apr 2025	Adds Mar 19
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: November CPI inflation report Wednesday, December 11

Monthly % Changes	2024											2024	2023	2023	
	Nov	Oct	Sep	Aug	Jul	Jun	May	Apr	Mar	Feb	Jan	Dec	Nov	Oct	Sep
Core CPI inflation		0.3	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
Core PCE inflation		0.3	0.3	0.2	0.2	0.2	0.1	0.3	0.3	0.2	0.5	0.2	0.1	0.1	0.3
Core PCE YOY		2.8	2.7	2.7	2.7	2.6	2.7	2.9	3.0	2.9	3.1	3.0	3.2	3.4	3.7
Core CPI YOY		3.3	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

OTHER ECONOMIC NEWS

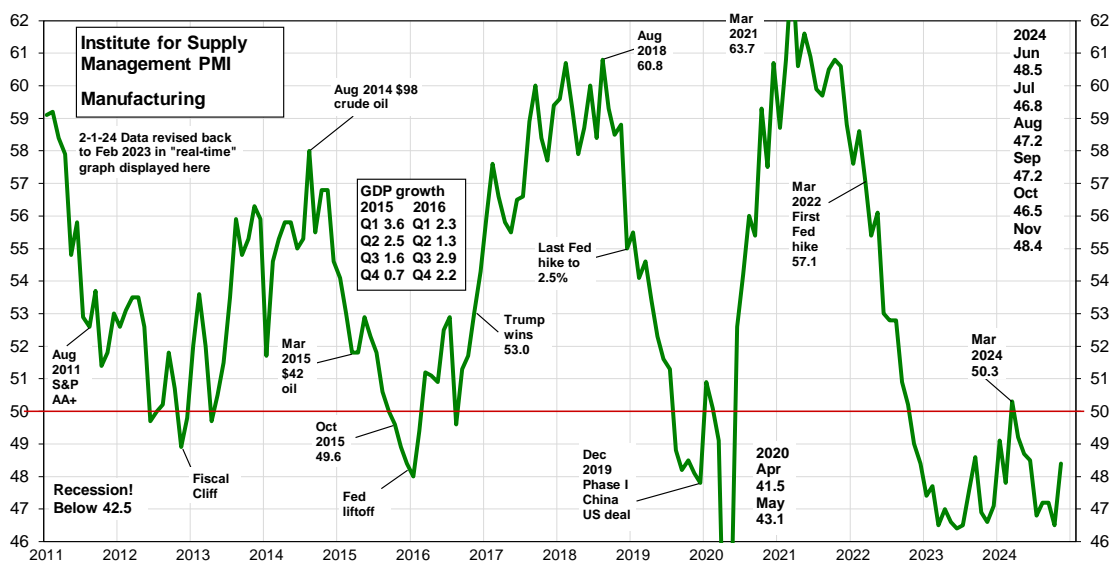
ISM manufacturing rebounds (Monday)

Breaking economy news. The ISM manufacturing index rebounded to 48.4 in November from 46.5 in October. The manufacturing sector has been contracting (less than 50.0) for all of 2024, the purchasing managers say, except for some brief daylight in March.

Net, net, purchasing managers at manufacturing companies were less pessimistic following the election although the overall reading is one of a recession for the manufacturing sector. New orders are back above 50 again showing they are expanding, but there is a lot of work to do if the U.S. is going

	Nov 24	Oct 24	Sep 24	Aug 24
PMI index	48.4	46.5	47.2	47.2
Prices	50.3	54.8	48.3	54.0
Production	46.8	46.2	49.8	44.8
New orders	50.4	47.1	46.1	44.6
Supplier deliveries	48.7	52.0	52.2	50.5
Employment	48.1	44.4	43.9	46.0
Export orders	48.7	45.5	45.3	48.6

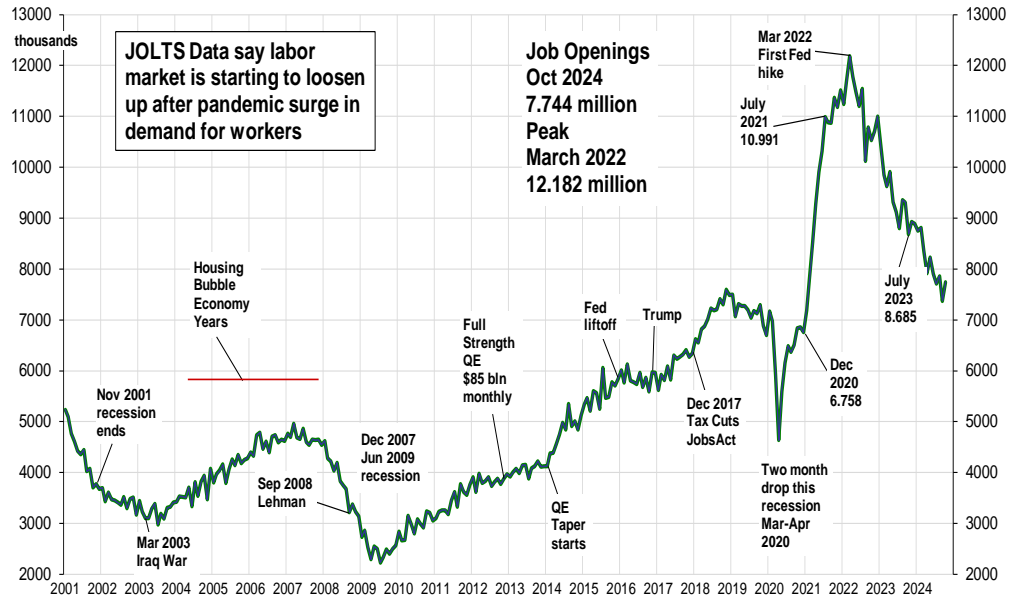
to become a major manufacturing power in world markets as it was in the last century. Out of the handful of largest manufacturing sectors in the U.S., the only industries seeing better orders are Food and Beverages, Computers, and Machinery. Stay tuned. Manufacturing is no longer at rock bottom, but factories are not in positive territory either which means the incoming administration's attempt to revive US manufacturing and to be less dependent on imports is going to be an uphill battle. There is a shortage of skilled labor in the U.S. which is probably one of the biggest reasons along with lower labor costs that have led U.S. companies to move production abroad steadily over the last two or three decades. It won't come back at the flick of a switch. America's trade war is not with other countries, it is really a war with the decisions made long ago by America's top companies. At the moment only three industries are reporting employment growth: Wood products, paper products, and Food and Beverage.



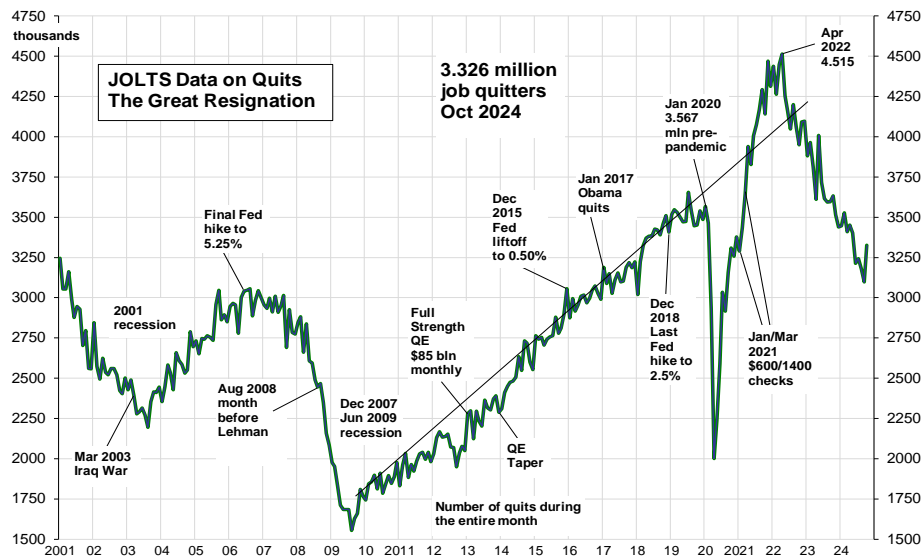
372 thousand more job openings (Tuesday)

Breaking economy news. Job openings increased 372 thousand to 7.744 million at the end of October. The preliminary September level of 7.443 million was revised to 7.372 million. The number quitting their jobs rose to 3.326 million at the end of October, an increase of 228 thousand. So much for election uncertainty slowing things down in the economy and labor markets.

Net, net, there was a surprising jump in the number of help-wanted signs across America just days before the election as businesses were not as uncertain as commonly believed. The labor market may not be cooling as much as Fed officials have hoped and this turns the December Fed meeting outcome into a cliff hanger on whether they cut rates



yet again. Some Fed officials have said recently that a rate cut was most likely, ruling out a surprise in the data, and today's Jolts data have to be considered a surprise where the labor market is not coming into better balance as the market had believed. There were very strong gains in job openings for Professional and business services, restaurants and hotels, and Information industries. More workers are quitting as well which is a sign of a strong labor market especially if worker wages are not keeping up with inflation. Economics is always trying to find if the proverbial glass is half-full or half-empty when it comes to current conditions, and right now the 7.744 million job openings at the end of October are greater than the 6.984 million count of the unemployed behind October's 4.1% unemployment rate. The story line never seems to change that for skilled labor, there is a persistent shortage of tech-savvy workers for companies to choose from.

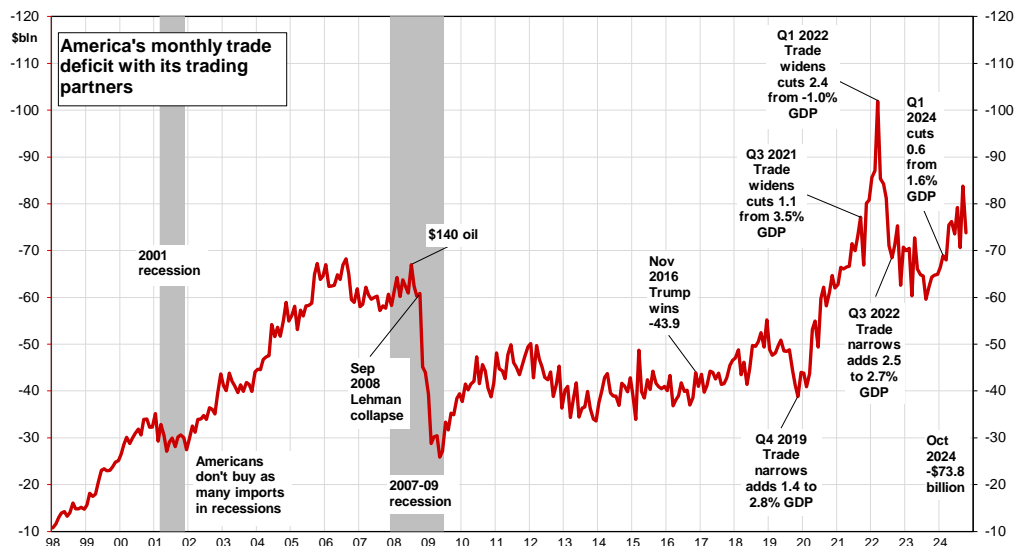


Trade deficit down, but battle begins (Thursday)

Breaking economy news. Weekly jobless claims rose 9K in the November 30 week to 224K. Job layoffs remain at modest levels, and Friday’s monthly employment situation report for November will show how the labor market is doing. The October trade deficit fell to \$73.8 billion from \$83.8 billion in September. It looks like America First policies will attempt to limit imports and boost exports. Americans like imported goods, and we are not sure what US manufacturers can sell to the rest of the world to make up the difference.

Net, net, the trade deficit fell back this month, but that is unlikely to satisfy the incoming Administration’s trade hawks that are gearing up to fight a new battle next year with the worst offenders. It is not just the trade deficit red ink, the battle is also with those countries that export a huge amount of goods to the U.S., the top three being Mexico (\$424.4 billion), Canada (\$343.8 billion), and China (\$363.6 billion) for the year-to-date as of October. The administration needs to proceed carefully as U.S. factories export billions of goods to Mexico and Canada that nearly offsets, at least with Canada, the imports of goods from those countries. If you increase tariffs you risk shooting yourselves in the foot if our trading partners increase their tariffs which would weaken U.S. manufacturing even more. If free trade between countries is the ultimate goal, it would seem like diplomacy and negotiation rather than a tariff war would be the better course to take. The U.S. consumer loves imported goods while U.S. exporters struggle to find the goods to sell to some of our other trading partners. There was a Phase One trade agreement with China in Trump 1.0 that never hit the target amount set for China to buy US exports. The lesson is it is hard to win a trade war, and waging one just seems to slow the whole wide world economy down.

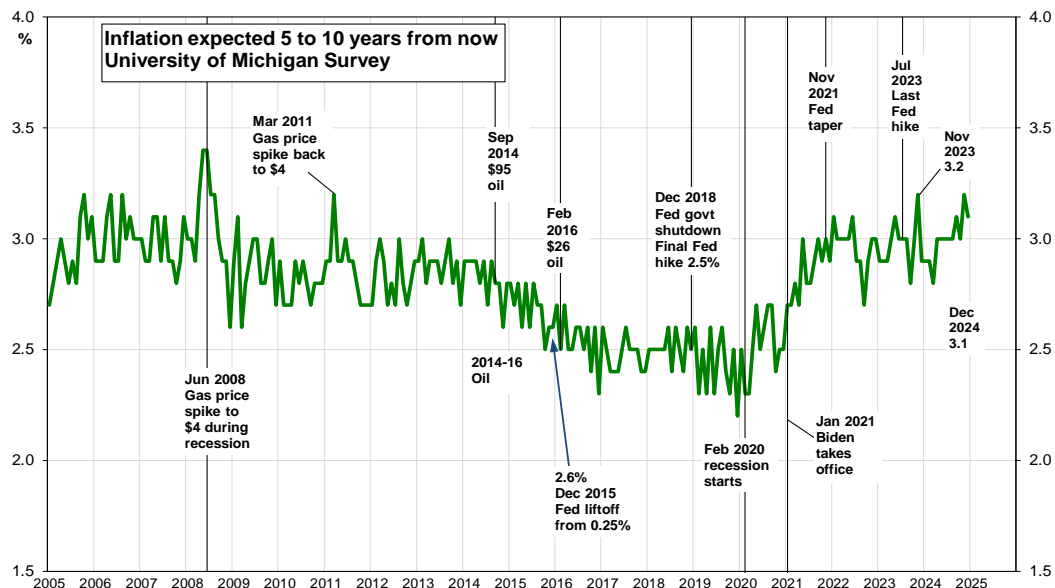
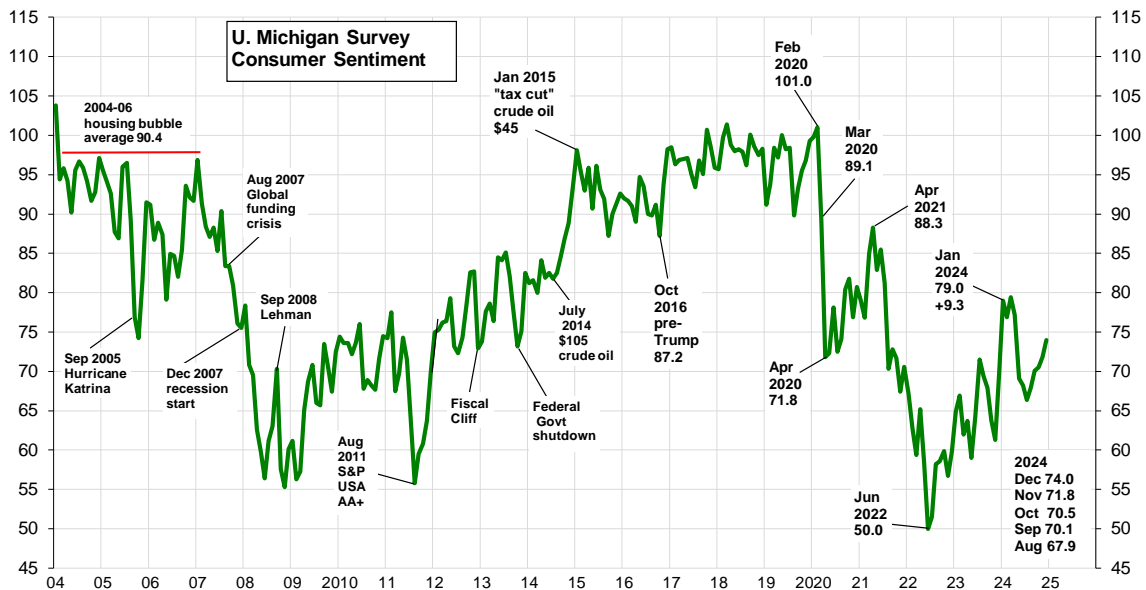
Top US Trade Partners for Goods 2024 Oct YTD			
\$ billions	Exports	Imports	X-M
Mexico	282.5	424.4	-141.9
Canada	293.3	343.8	-50.5
China	118.2	363.6	-245.4
Germany	64.0	133.8	-69.8
Japan	66.5	123.7	-57.2
S. Korea	55.2	110.4	-55.2
Taiwan	35.0	96.9	-61.9
Vietnam	10.5	112.7	-102.2
Top 15	1,218.4	2,100.1	-881.7
Total	1,724.0	2,708.3	-984.3



Consumer sentiment perks up (Friday)

Breaking economy news. The University of Michigan’s surveys of consumers showed the sentiment index rose slightly to a preliminary reading of 74.0 in December from 71.8 in November. Long term inflation expectations were 3.1% in the preliminary estimate for December down from 3.2% in November. Inflation based on this index has been 3.0 or higher since April this year.

The survey said there was a surge in purchases of durable goods to avoid future expected price increases. Stay tuned. Car and SUV sales have picked up in October/November. 3% real GDP here we come.



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