Financial Markets This Week

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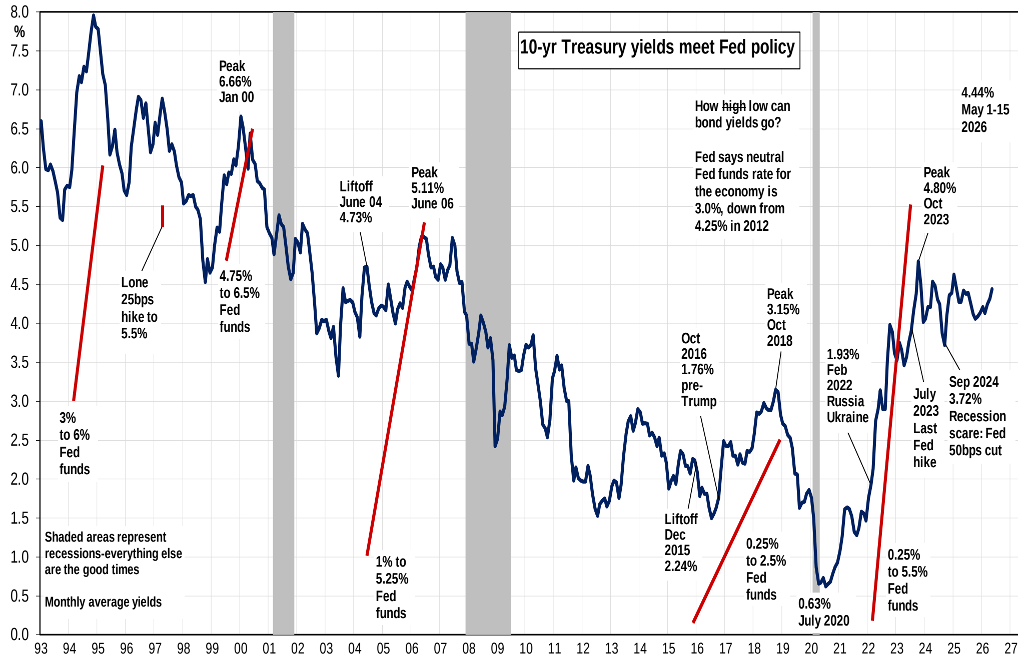
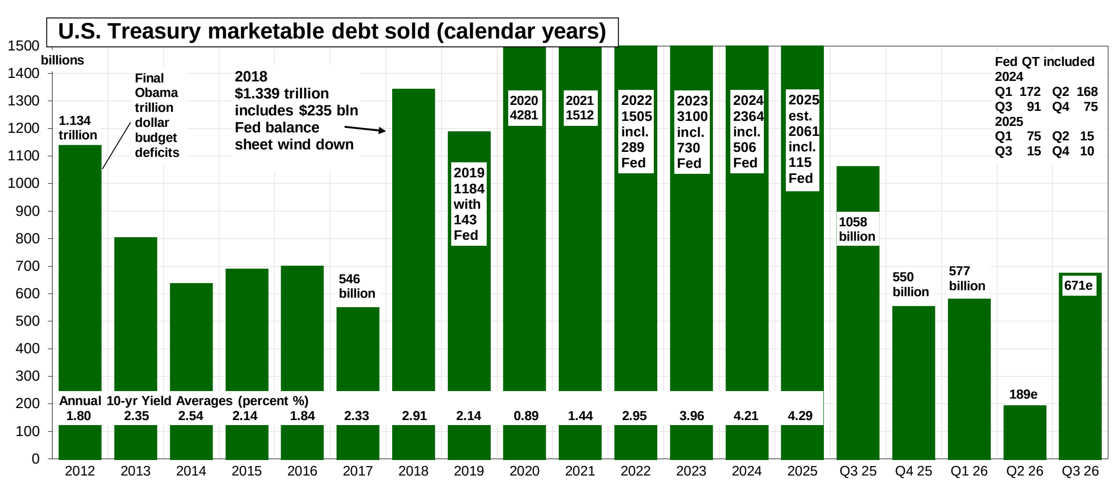
15 MAY 2026

BONDS NOT 5%

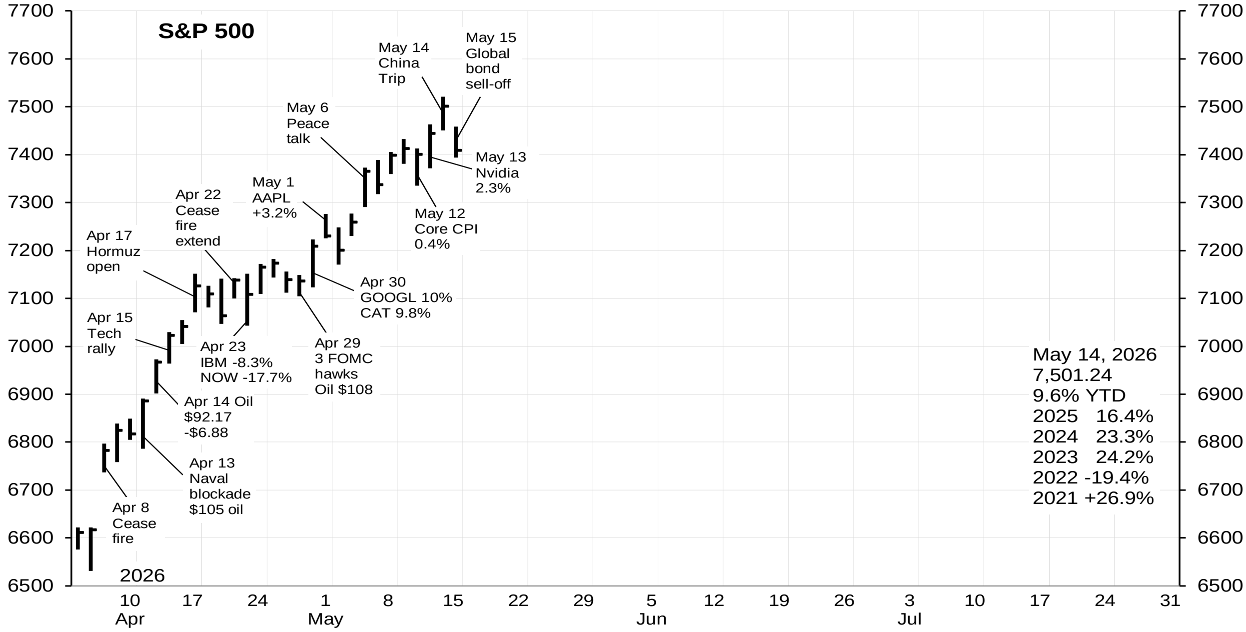


Plenty of market scare stories but bond yields are not 5% yet. The Treasury sold all the debt at the May quarterly refunding auctions this week. Forget the Federal budget deficit, the Treasury keeps selling \$2 trillion of debt each year, pumping up the National Debt and yet there is no debt crisis, no fiscal time bomb to bring down the economy. Monthly average 10-yr yields got to recent peak levels of 4.80% in October 2023, a few months after Fed "recession-magnitude" peak rates of 5.5% in July 2023. Generally 10-yr yields rise to the peak Fed rate in prior cycles, though not this time. Recent yield low was September 2024 at 3.72% as rising unemployment put the Powell Fed on recession watch and they cut rates a big 50 bps to 5.0% in September 2024 to get ahead of it. Recession never happened, and yields have been in a tight 50 bps range of 4.0 to 4.5% since Trump 2.0's first full month on the job in February 2025. The \$39.0 trillion National Debt (April 2026) gets a lot of airplay but has not sent yields higher yet. Marketable Treasuries, the ones sold at auction to the public, are only \$27.9 billion so we guess this amount is manageable for now.



Marketable Apr 2026	Treasuries $trillion	Average Rate %
Bills	6.621	3.69
Notes	15.933	3.23
Bonds	5.371	3.40
TOTAL	27.925	3.37

INTEREST RATES

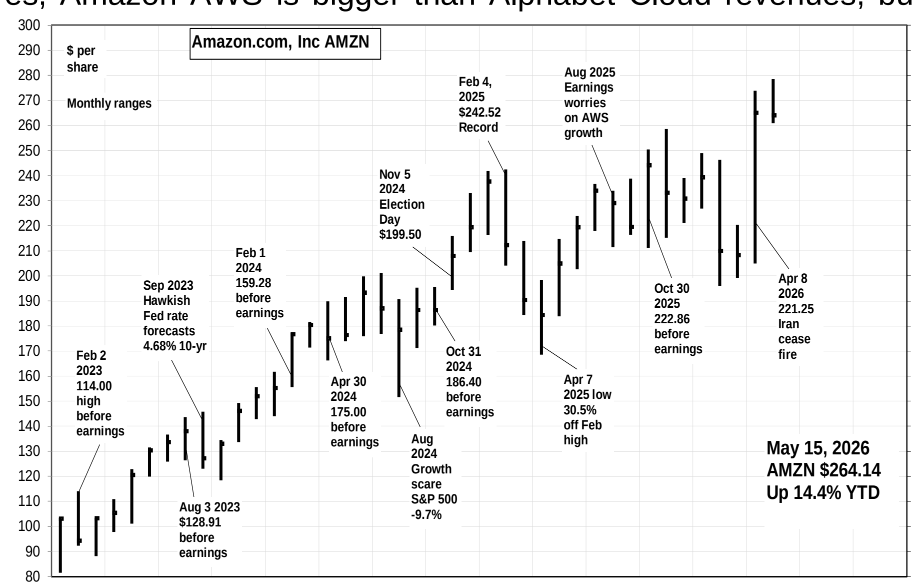


We were rooting against our own interests this week for the S&P 500 to stay under 7,500 so we didn't have to redraw the stock graph yet again. Not to worry, not a lot of arrows to point to on the various trading days that could possibly explain why prices are moving up. Markets have never needed a reason during a trend, especially during a rally. We forgot. Probably should have switched to the Treasury 10-year yield graph that hit a 4.61% 2026 high on Friday, which was, more or less, our front-page topic this week, where $42 billion of 10-year securities were sold Tuesday as part of the Treasury quarterly refunding auctions: 3s/10s/30s. Record stock high Thursday, wouldn't think it was due to Trump's China trip which seemed less trade focused (the imbalance has plummeted) and more on the relationship, how both countries are going to grow stronger together. Stocks closed up 8.2% YTD.

Amazon.com Inc. (AMZN) up 14.4% YTD

The stock closed $221.25, up 3.5%, on April 8 with the Iran cease-fire news, starting the 2026 rally. The stock was $263.04 on April 29 before earnings, eventually trading as high as $273.88 the next day. AWS Sales beat expectations up 28.4% year-on-year. We asked Google Gemini why investors might be concerned, and it said, yes, Amazon AWS is bigger than Alphabet Cloud revenues, but Google AI is growing faster than Microsoft or Amazon. Okay, that settles it.

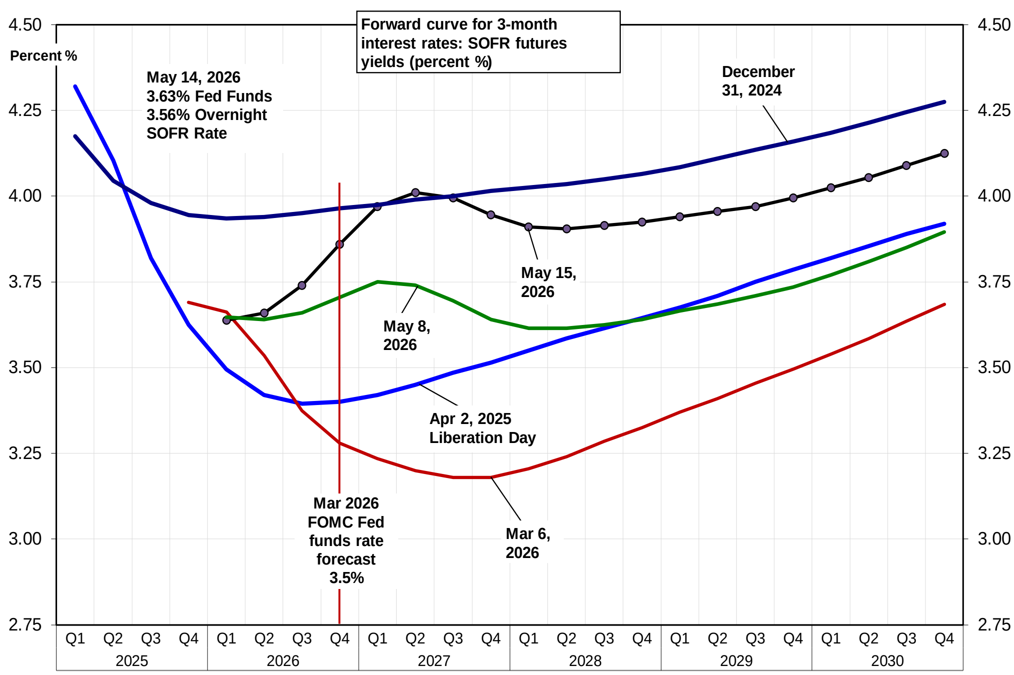
Calendar Year Mln $	Net Sales	Operating Income	AWS Sales	AWS Income	Income minus AWS
Q1 2026	181,519	23,852	37,587	14,161	9,691
Q4 2025	213,386	24,977	35,579	12,465	12,512
Q3 2025	180,169	17,422	33,006	11,434	5,988
Q2 2025	167,702	19,171	30,873	10,160	9,011
Q1 2025	155,667	18,405	29,267	11,547	6,858
Q4 2024	187,792	21,203	28,786	10,632	10,571
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



FEDERAL RESERVE POLICY

The Fed meets June 16-17, 2026 to consider its monetary policy. Warsh has been confirmed and will be there at the helm for the June 17 Fed decision date and hopefully press conference. We will see what new ideas come out of this changeover in the President's men. Trump 2.0 economic officials take pains to always say why interest rates should be lowered no matter what data are presented. Warsh, unlike Powell, could have a longer honeymoon as he enjoys the President's respect as Warsh is a fellow billionaire, or at least married one. CPI inflation is moving up again, just as it was in 2021 when Powell said they thought it was temporary, and Warsh said that was a huge policy error and that they left interest rates too low for too long. Anway Powell is staying on and will be able to vote on policy. So Fed governor Miran will leave to make room for Warsh, as will the Miran 2.75% lowest rate on the Fed dot plot at the end of 2026. Miran's resignation letter repeats how he thinks underlying inflation is lower, and conveniently justifies the rate cut the President wants. This reminds us of 2000 when Greenspan shifted from CPI to PCE inflation because it was better, though cynics said it was also lower and would help bring down long-term yields. Interesting that core PCE inflation was under 2% back then, meaning the Fed would have never tightened policy to 6.5% during the stock market bubble.

Selected Fed assets and liabilities						Change
Fed H.4.1 statistical release						from
billions, Wednesday data	13-May	6-May	29-Apr	22-Apr	3/11/20*	3/11/20
Factors adding reserves						to May 13
U.S. Treasury securities	4450.235	4434.161	4425.737	4420.267	2523.031	1927.204
Federal agency debt securities	2.347	2.347	2.347	2.347	2.347	0.000
Mortgage-backed securities (MBS)	1981.060	1981.060	1981.060	1993.276	1371.846	609.214
Repurchase agreements	0.004	0.002	0.001	0.004	242.375	-242.371
Primary credit (Discount Window)	6.002	5.735	6.105	6.032	0.011	5.991
Bank Term Funding Program	0.000	0.000	0.000	0.000		
FDIC Loans to banks via Fed	0.000	0.000	0.000	0.000		
Paycheck Protection Facility	0.029	0.029	0.030	0.031		
Main Street Lending Program	1.406	1.404	1.402	1.335		
Term Asset-Backed Facility (TALF II)	0.000	0.000	0.000	0.000		
Gold stock	11.041	11.041	11.041	11.041	11.041	0.000
Central bank liquidity swaps	0.042	0.206	0.020	0.101	0.058	-0.016
Federal Reserve Total Assets	6779.9	6760.8	6750.2	6758.7	4360.0	2419.827
~~3-month Libor %~~ SOFR %	3.59	3.61	3.63	3.64	1.15	2.440
Factors draining reserves						
Currency in circulation	2458.020	2457.249	2454.885	2453.331	1818.957	639.063
Term Deposit Facility	0.000	0.000	0.000	0.000	0.000	0.000
U.S. Treasury Account at Fed	807.420	862.757	988.102	1007.172	372.337	435.083
Treasury credit facilities contribution	0.821	0.821	0.821	0.821		
Reverse repurchases w/others	3.719	1.633	0.747	0.538	1.325	2.394
Federal Reserve Liabilities	3662.487	3709.368	3831.053	3844.166	2580.036	1082.451
Reserve Balances (Net Liquidity)	3117.367	3051.481	2919.153	2914.576	1779.990	1337.377
Treasuries within 15 days	94.449	92.033	90.628	89.725	21.427	73.022
Treasuries 16 to 90 days	332.071	322.685	322.167	315.690	221.961	110.110
Treasuries 91 days to 1 year	511.124	507.653	514.081	516.358	378.403	132.721
Treasuries over 1-yr to 5 years	1394.557	1394.175	1388.806	1388.419	915.101	479.456
Treasuries over 5-yrs to 10 years	515.413	515.328	509.713	509.888	327.906	187.507
Treasuries over 10-years	1602.621	1602.287	1600.342	1600.187	658.232	944.389
Note: QT starts June 1, 2022	Change	5/13/2026	6/1/2022			
U.S. Treasury securities	-1320.544	4450.235	5770.779			
Mortgage-backed securities (MBS)	-726.386	1981.060	2707.446			
**March 11, 2020 start of coronavirus lockdown of country						



4.5 bps of a 25 bps rate hike is discounted by the September 2026 meeting. Huge jump in rate expectations into early 2027.

Fed funds futures call Fed policy		
Current target: May 15 -- 3.75%		
Rate+0.12	Contract	Fed decision dates
3.750	Jul 2026	Jun 17*
3.795	Oct 2026	Adds Jul 29, Sep 16*
*July 2026 could be two days at a new rate		
*Oct 2026 could be 3 days at a new rate		

Next up: April PCE inflation Thursday, May 28 830am ET

Monthly	2026				2025									2025
% Changes	Apr	Mar	Feb	Jan	Dec	Nov	Oct	Sep	Aug	Jul	Jun	May	Apr	Mar	Feb
Core CPI inflation	0.4	0.2	0.2	0.3	0.2	na	na	0.2	0.3	0.3	0.2	0.1	0.2	0.1	0.3
Core PCE inflation		0.3	0.4	0.4	0.3	0.2	0.2	0.2	0.2	0.2	0.3	0.2	0.2	0.1	0.4
Core PCE YOY		3.2	3.0	3.1	3.0	2.8	2.8	2.8	2.9	2.9	2.8	2.8	2.6	2.7	3.0
Core CPI YOY	2.8	2.6	2.5	2.5	2.6	2.6	na	3.0	3.1	3.1	2.9	2.8	2.8	2.8	3.1

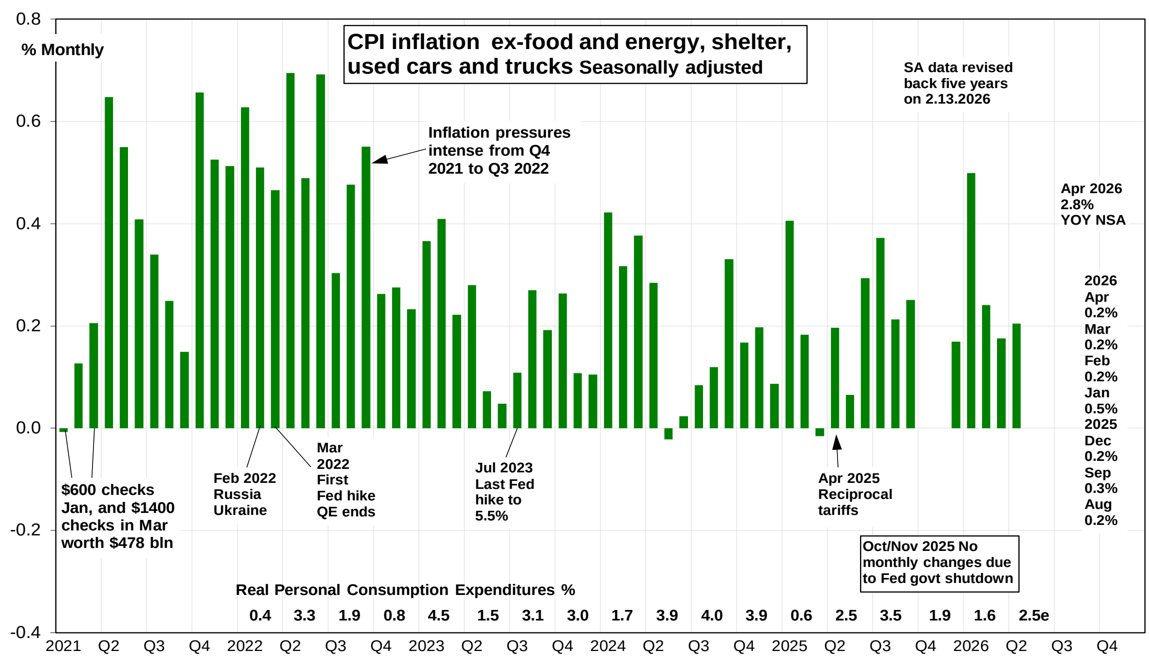
OTHER ECONOMIC NEWS

Flaming torch of too-hot inflation (Tuesday 830am ET)

Dec 25		Monthly Percent Changes			YOY %
Weight	CPI inflation	Feb 2026	Mar 2026	Apr 2026	Apr 2026
100.0	Total	0.3	0.9	0.6	3.8
13.698	Food	0.4	0.0	0.5	3.2
8.325	Food at home	0.4	-0.2	0.7	2.9
5.373	Food away from home	0.3	0.2	0.2	3.6
6.383	Energy	0.6	10.9	3.8	17.9
2.895	Gasoline	1.1	21.3	5.6	29.2
79.919	Ex-food & energy	0.2	0.2	0.4	2.8
3.838	New vehicles	0.0	0.1	-0.2	0.2
2.759	Used cars/trucks	-0.4	-0.4	0.0	-2.7
2.368	Clothing	1.3	1.0	0.6	4.2
1.489	Medical care goods	0.0	-1.0	-0.4	-0.5
35.625	Shelter	0.2	0.3	0.6	3.3
26.204	Owner equiv. rent	0.2	0.3	0.5	3.3
6.315	Transportation	0.2	0.6	0.3	4.3
6.935	Medical care services	0.6	0.0	0.0	3.2
	Special: Where inflation might come back down to				
60.744	Services ex-energy	0.3	0.2	0.5	3.3
19.176	Commodities (core)	0.1	0.1	0.0	1.1

Breaking economy news. April CPI inflation jumped 0.6% and is 3.8% higher than a year ago. Core CPI jumped 0.4% (0.376) and is 2.8% higher than a year ago (Core PCE inflation was 3.2% YOY in March). It is surprising that core inflation is not directly the result of measurable import tariff inflation as CPI commodities less food and energy was unchanged and just 1.1% higher than a year ago, even with faster clothing inflation the last three months which is now 4.2% higher than a year ago. Household furnishings and operations did increase 0.7%. Airline fares are up 2.8% in April on the energy shock from the Iran war. Shelter costs are driving core inflation higher at least for this month.

Net, net, the affordability crisis just got a whole lot hotter for Americans this month with inflation nearly 4 percent higher than a year ago. This isn't the final word, but today's inflation report is certainly another nail in the coffin of the idea Fed officials have to welcome the new Fed Chair with an interest rate cut this year. Powell is not handing a baton over to Warsh, it is looking more like he is passing on a torch of burning hot inflation. It isn't just gasoline prices at the pump that are soaring, it is literally the price of a roof over your head with shelter costs jumping 0.6% in April. Stay tuned. Warsh was just passed a flaming torch of too-hot inflation which is not the news investors need before bidding on today's 10-year Treasury note auction. If you were buying bonds on the idea Fed rate cuts would bring down long-term interest rates later this year, forget about it.



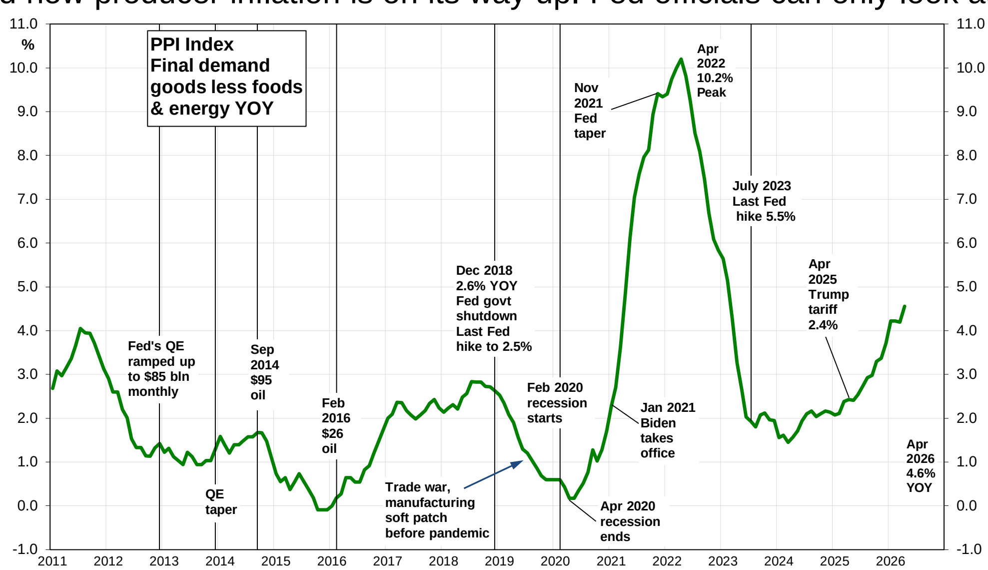
PPI report a scorcher (Wednesday)

Breaking economy news. Amazingly, the bond and stock markets moved on an economic number report at 830am ET, instead of the price of oil, or Iran war peace news, or news of the President’s trip to China. PPI or more formally, the Producer Price Index for final demand, increased 1.4% in April, the largest monthly increase since March 2022. Factory inflation is back. We are not normally a fan of PPI measurement of services, but the 5.0% April jump in transportation and warehousing looks like an adjustment to deal with the higher cost of energy from the Iran war. Some good news in the 2.4% drop in portfolio management, unless you work there, because these changes make their way into the PCE inflation report where April data are due Thursday, May 28. A slight negative, although airfares that also feed into PCE inflation rose 3.0% in April and are 15% higher than last year.

Monthly % SA		Final demand goods				Final demand services			
2025	Total final demand	Total	Foods	Energy	Less foods and energy	Total	Trade	Transportation and warehousing	Other
Apr	-0.3	-0.1	-1.0	-0.5	0.3	-0.3	-0.3	0.1	-0.4
May	0.3	0.1	0.2	-0.2	0.3	0.4	1.3	0.0	0.1
Jun	0.2	0.3	0.2	0.9	0.2	0.1	0.0	-0.6	0.2
Jul	0.8	0.6	1.2	0.7	0.4	0.9	1.2	1.4	0.7
Aug	-0.2	0.2	-0.1	-0.2	0.4	-0.3	-2.1	0.6	0.3
Sep	0.6	0.6	0.8	2.0	0.2	0.6	1.6	0.7	0.2
Oct	0.1	-0.2	-0.4	-2.2	0.5	0.2	-0.9	0.0	0.7
Nov	0.4	0.8	0.1	3.4	0.2	0.3	0.2	0.8	0.2
Dec	0.4	-0.1	-0.2	-1.5	0.4	0.6	1.8	0.2	0.0
2026									
Jan	0.6	-0.1	-1.4	-1.8	0.7	0.8	2.0	1.0	0.3
Feb	0.6	1.0	2.3	2.2	0.3	0.4	-0.1	0.8	0.6
Mar	0.7	1.9	-0.6	10.1	0.3	0.2	0.3	1.8	0.0
Apr	1.4	2.0	0.2	7.8	0.7	1.2	2.7	5.0	0.1

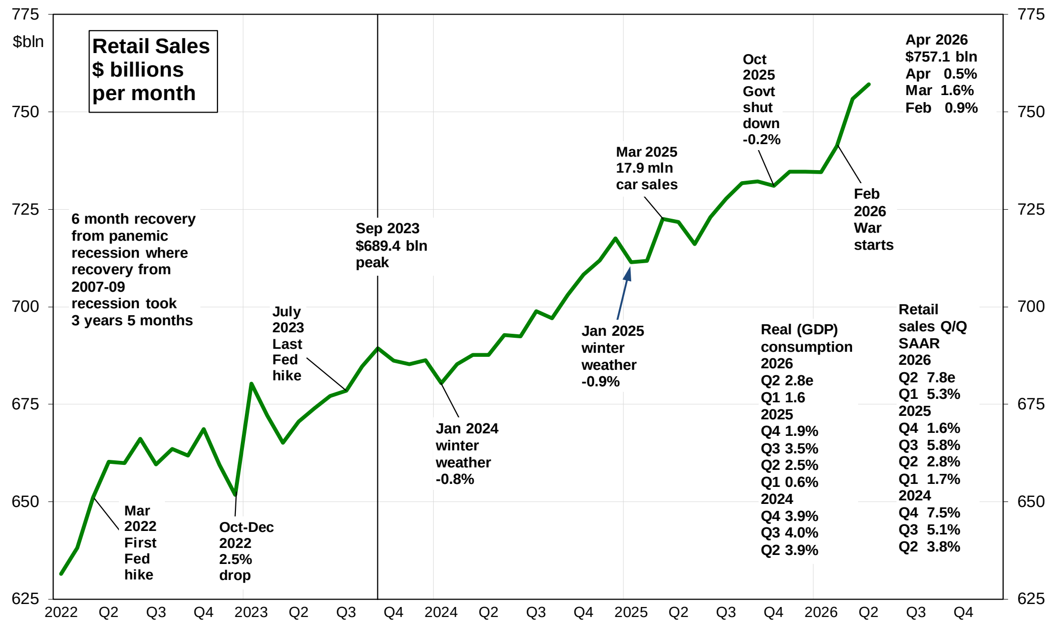
**Final demand goods, less foods and energy is old-fashioned PPI

Net, net, factories don’t just produce goods, they are also putting out increasing amounts of too-hot inflation that will eventually push up the prices of consumer store-bought goods and make life even more unaffordable for beleaguered American families. In the two months since the Iran war started we are starting to see evidence that producers are not treating the energy price shock as temporary, rather they are already starting to add the higher energy prices to the price of their own products and goods they manufacture. Core final demand goods jumped 0.7% in April and are 4.6% higher than a year ago. This is the highest annual rate since February 2023, the difference being, in 2023 inflation was on a downward slope, and now producer inflation is on its way up. Fed officials can only look at today’s report and groan as it does not matter who the Fed Chair is, this is no time for the central bank to be thinking about interest rate cuts no matter how much Trump 2.0 economic officials want it. Stay tuned. Producers are seeing more inflation which means consumers will be seeing even more inflation shortly, it’s only a matter of time. Bet on it.



Retail solid as a rock (Thursday)

Breaking economy news. Retail sales rose a solid 0.5% in April. Spending for the second quarter is running 7.8% which is the strongest since the last of the Biden years with its 7.5% in Q4 2024. We estimate real consumer expenditures will bounce back to 2.8% in Q2 2026 from 1.6% slower growth in Q1 2026 which was held back by colder than seasonal winter temps.



Net, net, war in the Middle East and $4.50 gasoline at the pump are no problem for American consumers who continue to shop and spend at the malls as if spring is in the air and the living is easy. The stock market record high is shoring up high-end consumers and we have yet to see an economy that has ever been held back by the lower-half of the K-shaped workforce that cannot come up with $500 in the next month. Besides, income tax refunds are tens of billions higher than last year and consumers have more money in their pockets to spend and are doing so. Retail sales rose 0.5% in April and were still 0.3% higher despite higher gasoline prices. Internet sales, so-called nonstore retailers, jumped 1.1%, and bars and restaurants saw greater traffic with a 0.6% jump. Stay tuned. The economy is not doomed yet if the consumer has anything to say about it. And they do. Retail spending was solid as a rock at the start of the second quarter. If the spike in energy prices was going to lead to a recession we would have seen it already. Stay tuned.

Retail spending, actual dollars, each month

	$million	% to	Percent Changes %		
	Apr	Total	Apr	Mar	Year/year
Total Retail Sales	757,085	100.0	0.5	1.6	4.9
Motor vehicles/parts	139,229	18.4	-0.4	0.6	-1.2
Furniture/furnishings	11,082	1.5	-2.0	2.6	-3.6
Electronics/appliances	8,174	1.1	1.4	1.3	7.6
Building materials/garden	41,761	5.5	0.1	1.1	2.2
Food & beverage	85,609	11.3	0.8	1.0	1.4
Health/personal care	40,099	5.3	0.0	1.1	2.3
Gasoline stations	61,512	8.1	2.8	13.7	20.9
Clothing/accessories	27,534	3.6	-1.5	0.5	5.5
Sporting goods, books	8,773	1.2	1.4	0.2	13.4
General merchandise	78,842	10.4	0.1	1.1	3.1
Department stores	3,187	0.4	-3.2	4.9	-1.2
Miscellaneous retailers	15,942	2.1	0.3	-1.4	12.8
Nonstore retailers (internet)	137,558	18.2	1.1	0.8	11.1
Eating & drinking places	100,970	13.3	0.6	0.1	2.7
[Total ex-autos/gas]	556,344	73.5	0.5	0.7	4.9

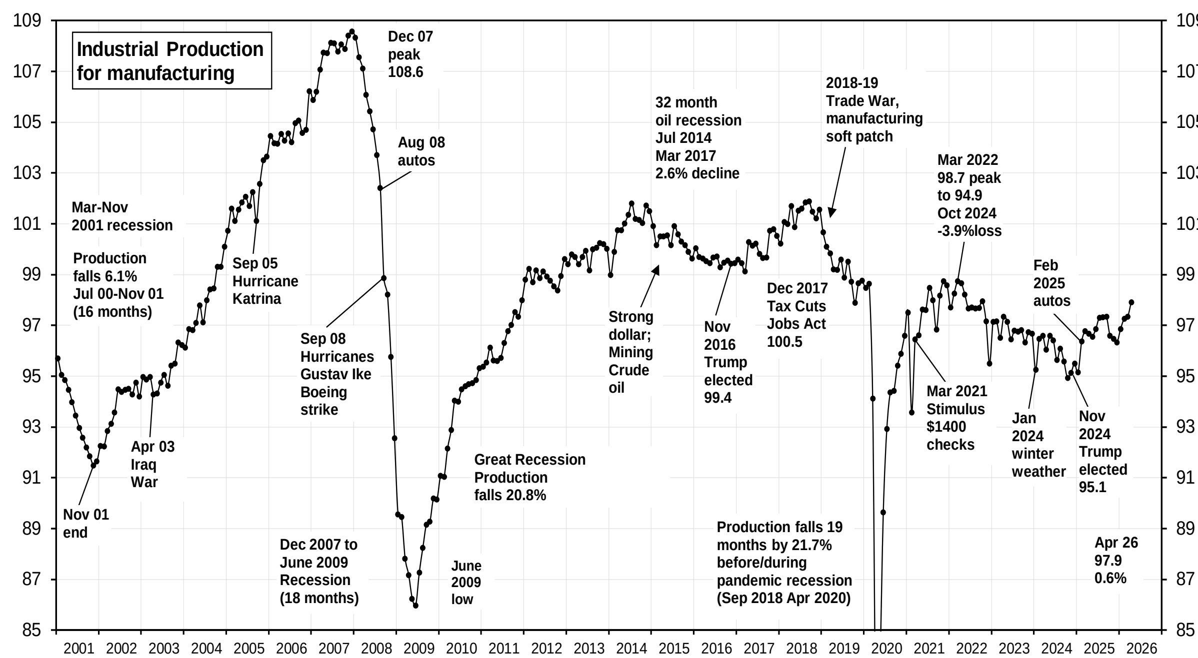
Other economic data too. Weekly jobless claims are not spinning a tale of economic woe and hardship despite the 12K increase to 211,000 in the May 9 week. The labor market is stable/moderately strong despite increases this week in Florida, Kentucky, New York, Pennsylvania, and Texas. Nonfuel import prices (before tariffs) were up 0.8% in April, and are supportive of 3% core consumer inflation with a year-on-year increase of 2.9%. The US war in the Middle East continues, but the US economy has been spared for now.

Factory production jumps (Friday 915am ET)

Breaking economy news. April industrial production rose 0.7%, the -0.5% March drop was revised to -0.3%, and the index is 1.4% higher than a year ago. Manufacturing production was up 0.6% in April, and ex-motor vehicles was 0.3% higher. Trending up, not at great speed, but positive. Home electronics is a standout among consumer goods, rising 12.7% from a year ago, but it has a small weight in the overall production index. The business equipment category of Transit (light-duty trucks?) shows a 14.7% gain from last year which is helping overall production as is Information processing 7.4% year-year, and Defense and space equipment 6.5% year-year. Supporting the 1.4% year-year total production gain is Energy materials rising just 1.2%, but with a huge weight of 16.2%.

Percent changes			Industrial Production Apr 2026		
Feb	Mar	Apr	YOY		Weight
0.6	-0.3	0.7	1.4	Total Index	100.0
0.4	0.1	0.6	1.3	Manufacturing	75.9
2.3	-1.6	-0.1	0.2	Mining	11.7
0.4	-1.4	`.9	2.7	Utilities	12.4
			Manufacturing payroll jobs 12.6 million -66K YOY 9.3% of Private Payroll Jobs		

Net, net, the winds of war have not led to any observable caution on the part of businesses who have largely restarted factory production in April after a drop in activity following the Federal government shutdown last October. From the December nadir point, manufacturing industrial production is up a sharp 1.7% which is a new high for the economy under Trump 2.0. Import tariff costs have hit manufacturers hard, yet the factory lights remain on for now. Stay tuned. The factories expected from new investment negotiated with the trade agreements are still in the development stage, but those factories already put in place are cranking out even more goods which is consistent with the recent surge in goods exports to the world. Historically, we often see companies dim the factory lights before or during wars and oil price shocks, but this time around, production continues to roll. Now if companies were only hiring more factory workers (down 66,000 from a year ago) that would be the ultimate sign that the manufacturing resurgence was adding fully to economic growth and prosperity for all Americans.



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