

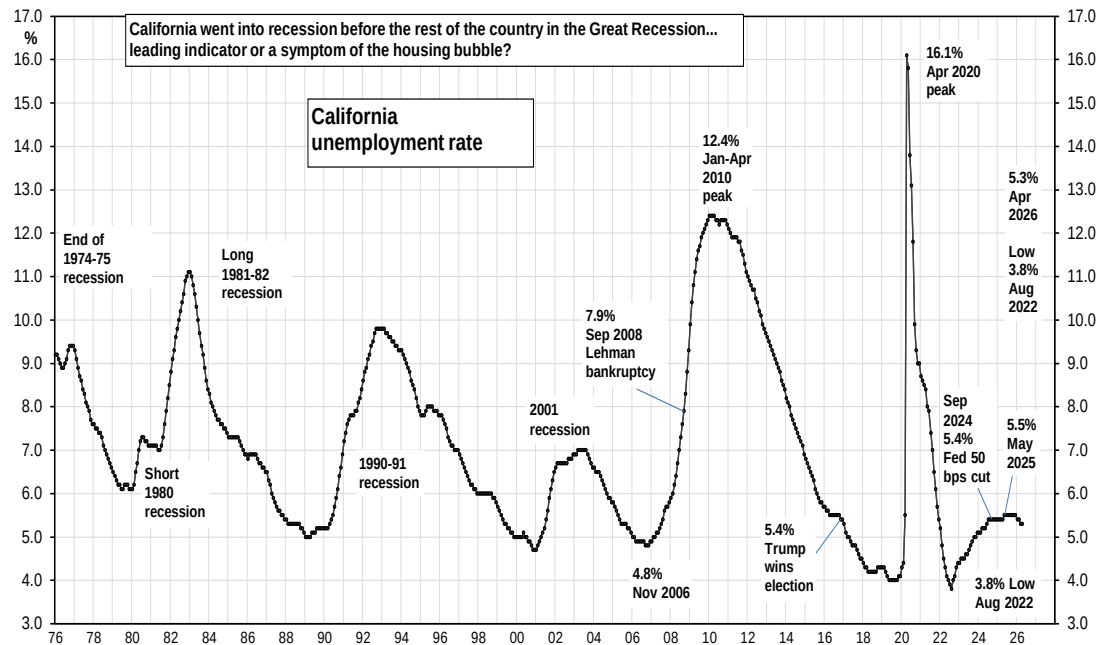
Financial Markets This Week

22 MAY 2026

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

CALIFORNIA

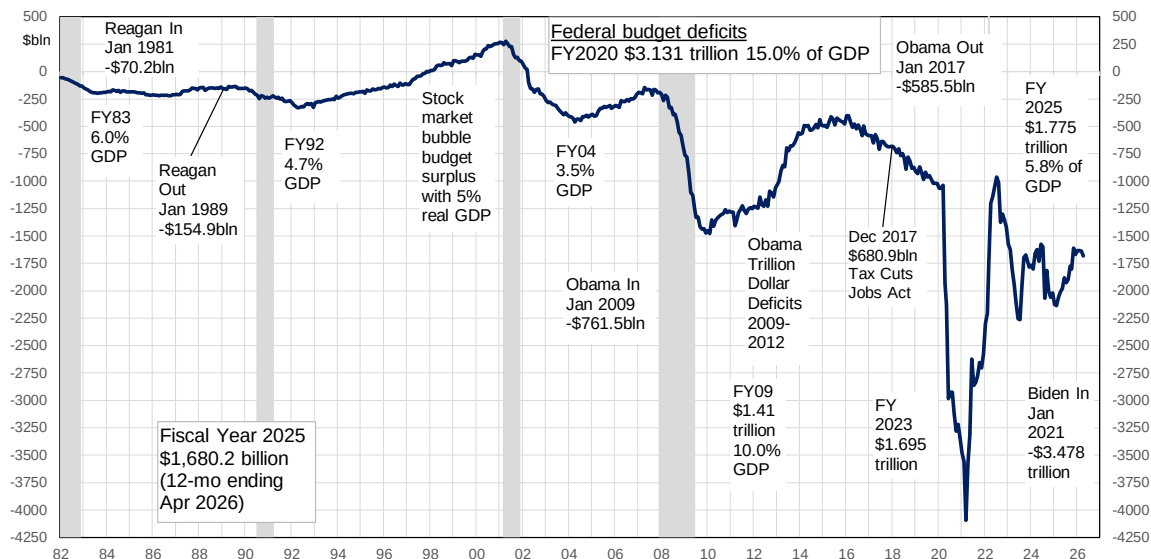
California dreaming. The job losses to date from the 3.8% unemployment rate low don't seem to be worsening for now. Unemployment was 5.5% for many months last year before dropping down to 5.3% the last two months in March and April.



Warsh is in and he vows to be reform-oriented. We don't know what that means but what if the Federal Reserve could only use one variable to guide monetary policy, setting the level of interest rates? How would the California unemployment rate work? Not too bad. California unemployment rose a lot before the last three "normal" recessions, keeping in mind the start date is always the last month of the expansion, and the economy turns down a month later. Fed rates peaked very near 10% in February 1989, the unemployment low point was 5.0% in April 1989, and recession started July 1990 with unemployment of 5.7%. The Fed started easing off the Fed rate in June 1989 and it was down to 8.25% before the July 1990 recession start date. Rates peaked at 6.5% in May 2000, and the California unemployment rate was still down at the best of times 4.7% low in January 2001, California was oblivious to the Greenspan emergency interest rate cut on January 3, 2001 due to weekly jobless claims arising, and the recession started in March 2001. California not such a good leading indicator then. In the final cycle here, unemployment was 4.8% in November 2006, and had risen to 5.8% at the December 2007 recession start. The Fed had already started cutting rates during the August 2007 Global funding crisis. The Fed could do worse choosing another indicator to guide its monetary policy than California unemployment. Looking back it is hard to topple the economy as the years go by. Unemployment rose a lot from 3.8% in August 2022 while the Fed was doing its recession-magnitude rate hikes to 5.5%, and the California unemployment rate was 5.4% when the Fed cut rates a big 50

California Unemployment rate				Change
Recession	Recession start	Low point jobless	Low point month	Low to Start
Jul 90-Mar 91	5.7	5.0	Apr 89	0.7
Mar 01-Nov 01	4.9	4.7	Jan 01	0.2
Dec 07-Jun 09	5.8	4.8	Nov 06	1.0

bps the first time in September 2024. California joblessness but no nationwide economic downturn. The 1990-1991 recession had its final push by the oil spike after Iraq invaded Kuwait. The 2001 recession was caused by an internet stock market bubble. And the 2007-09 recession reason was the subprime housing crisis. Stay tuned. No recession yet despite the Iran War energy price spike.



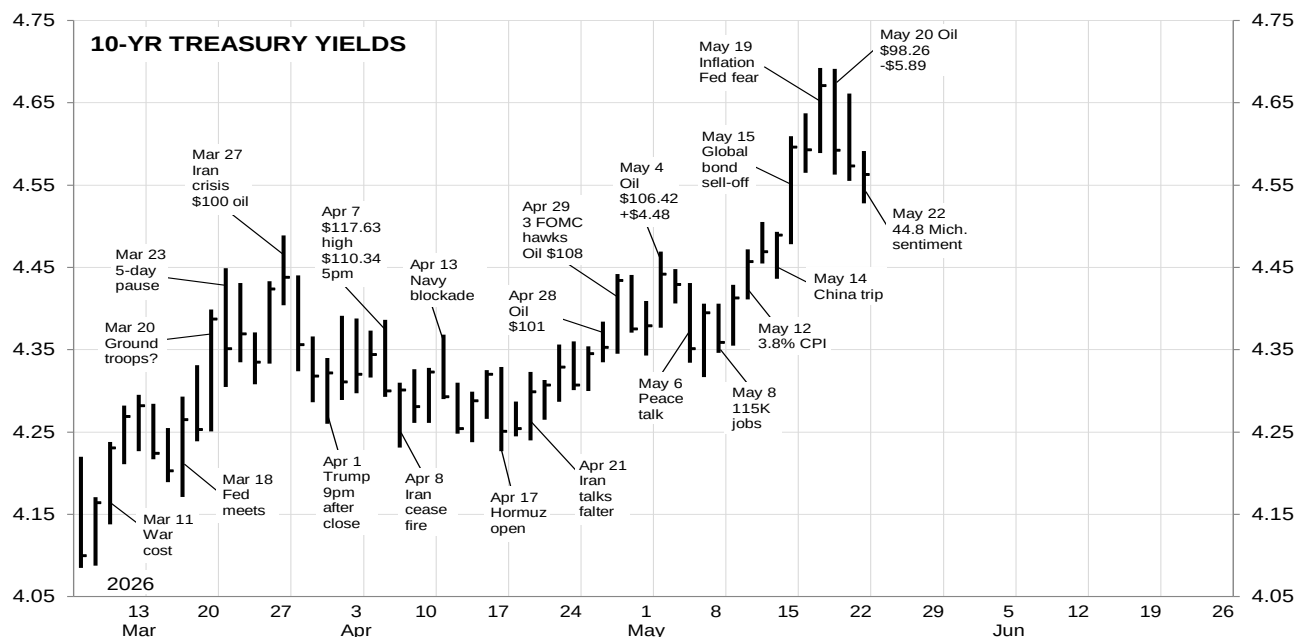
Speaking of dreaming, we missed last week's latest Federal budget results, deficit of course, for April 2026. The estimates for revenues and outlays, this year and next, are still there, based on the White House budget released last month. What is missing are the actual deficits where you have to do the math yourself. So the recorded deficit in FY25 was \$1.775 trillion, and the estimate for the current FY26 ending in September is \$2.064 trillion, and FY27 is \$2.171 trillion.

The biggest income tax refunds in history (based mostly on the failure of taxpayers to adjust their withholding) this year-to-date ended up being \$289.4 billion, \$29.4 billion more than the same period a year ago. April 2026 refunds of \$100.7 billion are \$14.3 billion more than \$86.4 billion in April 2025 income tax refunds, which isn't peanuts given last week's report of April retail sales increasing 0.5%, or \$3.715 billion to \$757.1 billion for the month. And the refund dollars are going for more than just \$4.50 gasoline, supporting the economy for now. What else? Food stamps, not for readers of this newsletter. Social Security. What's the expression? You can talk to people until you're blue in the face but you are never going to change their mind. The Social Security deficit was \$5.463 billion in April. There is no money in the trust fund to cover the difference when payroll taxes do not completely match the retiree benefits that are paid out each month. However, there are paper money IOUs in the trust fund which can be presented to the US Treasury, and Treasury will then raise money in the bond market from investors and give Social Security the cash to pay for the shortfall.

Selected Federal Budget Items Mostly Outlays In The News (\$bn)													12-month
	May 25	Jun	Jul	Aug	Sep	Oct	Nov	Dec 25	Jan 26	Feb 26	Mar 26	Apr 26	Total
Tariffs	22.173	26.632	27.670	29.503	29.675	31.354	30.756	27.982	27.742	26.594	22.155	22.124	324.360
Food stamps	8.638	8.716	8.829	8.530	8.867	8.732	7.709	8.998	8.189	7.594	8.242	7.843	100.887
Social Security	-30.616	-5.251	-36.757	-35.180	-34.383	-42.329	-35.466	-30.387	-13.984	-31.993	-22.999	-5.463	-324.808
Gross Interest	92.230	144.625	91.913	111.466	91.270	104.404	96.255	153.922	71.888	93.483	102.644	111.601	1265.701
Adj. Interest	86.015	84.345	92.011	92.699	36.900	90.871	87.853	91.540	75.944	78.644	94.336	96.564	1007.722
Total Outlays	686.881	499.436	629.635	689.107	345.725	688.704	509.279	629.136	654.667	620.623	548.963	622.316	7124.472

***Social security** is a net figure: Payroll taxes minus Benefits paid, normally a deficit funded by other taxes, Treasury borrowing from market etc.

INTEREST RATES

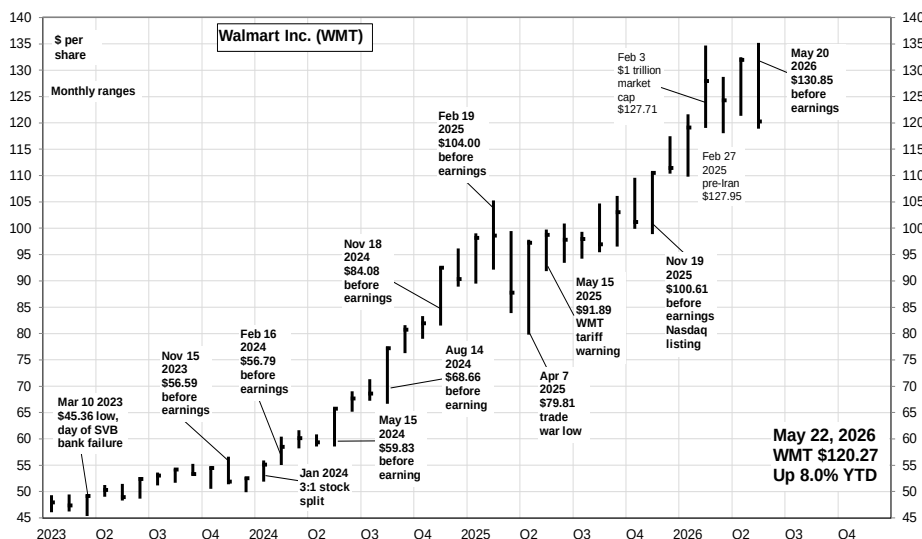


The 10-year Treasury 4.61% yield high last Friday made it to 4.69% on Tuesday before oil cracked on Wednesday. The S&P 500 hit its low for the week, off 1.0% from last Friday's close on Tuesday with stocks following the drop in bond prices and record 2026 yields. You can blame the bond sell-off on foreign bond markets and mortgage-hedge selling when 10-yr Treasuries broke the key psychological 4.50% level. Higher yields are not just on market fears about how the Fed will respond to inflation. It was at the end of the week, but Fed governor Waller gave a ["Policy Risks Have Changed"](#) speech, detailing he would do away with the Fed's easing bias (jobs market has stabilized) even if it is premature to hike rates. [Stocks probed](#) 7,500 on Friday, but could not close at an all-time high. Iran War headlines having less effect. S&P 500 closes up 9.2% YTD on Friday and 10-yrs 4.56%.

Walmart Inc. (WMT) up 8.0% YTD, Guidance unchanged

The stock closed at \$130.85 on Wednesday before earnings. Another caution forecast like the last quarter Q4 2025 earnings, or at least Walmart stock fell 7.3% on Thursday after earnings with the S&P 500 up 0.2%. Operating income is up 5.0% from last year for the April 30 quarter, and the company is keeping its full year 2027 guidance the same as issued in the February earnings release. Operating income is expected to increase 7-10 percent this year.

		Operating	Same-store	13-weeks
<u>Bln \$</u>	<u>Revenue</u>	<u>Income</u>	<u>Sales YOY *</u>	<u>ending *</u>
Q4 2023	173.4	7.3	4.0%	1/26/2024
Q1 2024	161.5	6.8	3.8%	4/26/2024
Q2 2024	169.3	7.9	4.2%	7/26/2024
Q3 2024	169.6	6.7	5.3%	10/25/2024
Q4 2024	180.6	7.9	4.6%	1/31/2025
Q1 2025	165.6	7.1	4.5%	5/2/2025
Q2 2025	177.4	7.3	4.6%	8/1/2025
Q3 2025	179.5	6.7	4.5%	10/31/2025
Q4 2025	190.7	8.7	4.6%	1/31/2026
Q1 2026	177.8	7.5	4.1%	5/1/2026
* Walmart U.S. comparable sales, ex-fuel				



FEDERAL RESERVE POLICY

The Fed meets June 16-17, 2026 to consider its monetary policy. He has arrived. Took 8 years, but welcome. Warsh appeared at the White House with the President on Friday. Keeping our fingers crossed. [Resume looks a little thin as updated](#) on the Fed website in 2013 with not much executive experience since that time to run a Federal Open Market Committee with its 7 governors and 12 district presidents. Bernanke and Yellen were chairs of the President's Council of Economic Advisers; Powell was not and we got the worst inflation outbreak since the 80s. Fed April 28-29 meeting minutes said only "several" were thinking rate cuts once the disinflation trend is back on track or if there is labor market weakness. The rest of the inflation-fearing Committee seems to be readying for higher rates, possibly influenced by the ECB, which is expected to hike rates on June 10. Regime change or not, all the Fed does for our purposes is raise or lower the policy rate currently at 3.75%. Where are rates going with Fed 2.0? Stay tuned. Miran going, Powell staying, not much clamoring for Trump rate cuts for now.

Selected Fed assets and liabilities						Change from 3/11/20 to May 20
Fed H.4.1 statistical release billions, Wednesday data	20-May	13-May	6-May	29-Apr	3/11/20*	
Factors adding reserves						
U.S. Treasury securities	4457.712	4450.235	4434.161	4425.737	2523.031	1934.681
Federal agency debt securities	2.347	2.347	2.347	2.347		0.000
Mortgage-backed securities (MBS)	1977.661	1981.060	1981.060	1981.060	1371.846	605.815
Repurchase agreements	0.007	0.004	0.002	0.001	242.375	-242.368
Primary credit (Discount Window)	5.599	6.002	5.735	6.105	0.011	5.588
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	0.027	0.029	0.029	0.030		
Main Street Lending Program	1.420	1.406	1.404	1.402		
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	0.016	0.042	0.206	0.020	0.058	-0.042
Federal Reserve Total Assets	6765.1	6779.9	6760.8	6750.2	4360.0	2405.057
3-month Libor % SOFR %	3.50	3.59	3.61	3.63	1.15	2.350
Factors draining reserves						
Currency in circulation	2461.745	2458.020	2457.249	2454.885	1818.957	642.788
Term Deposit Facility	0.000	0.000	0.000	0.000	0.000	0.000
U.S. Treasury Account at Fed	781.979	807.420	862.757	988.102	372.337	409.642
Treasury credit facilities contribution	0.821	0.821	0.821	0.821		
Reverse repurchases w/others	24.867	3.719	1.633	0.747	1.325	23.542
Federal Reserve Liabilities	3658.367	3662.487	3709.368	3831.053	2580.036	1078.331
Reserve Balances (Net Liquidity)	3106.715	3117.367	3051.481	2919.153	1779.990	1326.725
Treasuries within 15 days	88.919	94.449	92.033	90.628	21.427	67.492
Treasuries 16 to 90 days	343.911	332.071	322.685	322.167	221.961	121.950
Treasuries 91 days to 1 year	504.852	511.124	507.653	514.081	378.403	126.449
Treasuries over 1-yr to 5 years	1429.880	1394.557	1394.175	1388.806	915.101	514.779
Treasuries over 5-yr to 10 years	481.258	515.413	515.328	509.713	327.906	153.352
Treasuries over 10-years	1608.892	1602.621	1602.287	1600.342	658.232	950.660
Note: QT starts June 1, 2022	Change	5/20/2026	6/1/2022			
U.S. Treasury securities	-1313.067	4457.712	5770.779			
Mortgage-backed securities (MBS)	-729.785	1977.661	2707.446			
**March 11, 2020 start of coronavirus lockdown of country						

Fed Policy-key variables				Long Term
	2026	2027	2028	
Fed funds	3.4	3.1	3.1	3.1
PCE inflation	2.7	2.2	2.0	2.0
Core inflation	2.7	2.2	2.0	
Unemployed	4.4	4.3	4.2	4.2
GDP	2.4	2.3	2.1	2.0
March 2026 median Fed forecasts				

Close to 50/50 on a 25 bps rate hike is discounted by the September 2026 meeting.

Fed funds futures call Fed policy

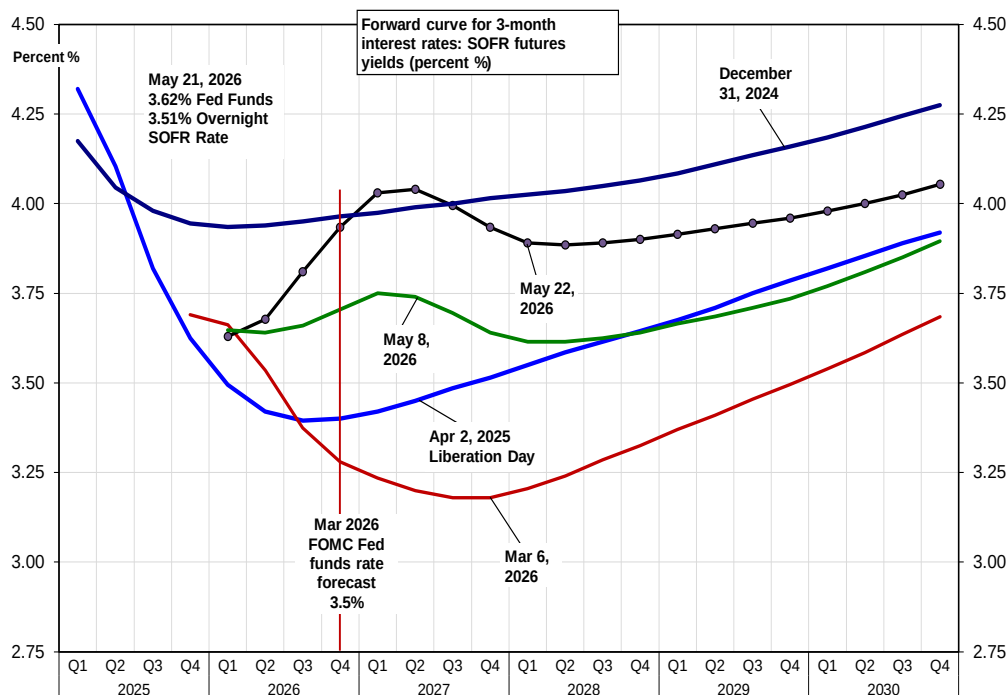
Current target: May 22 -- 3.75%

Rate+0.13 Contract Fed decision dates

3.765 Jul 2026	Jun 17*
3.870 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 % Changes	2026			2025								2025		
	Apr	Mar	Feb	Jan	Dec	Nov	Oct	Sep	Aug	Jul	Jun	May	Apr	Mar
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
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
Core PCE YOY	3.3e	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
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

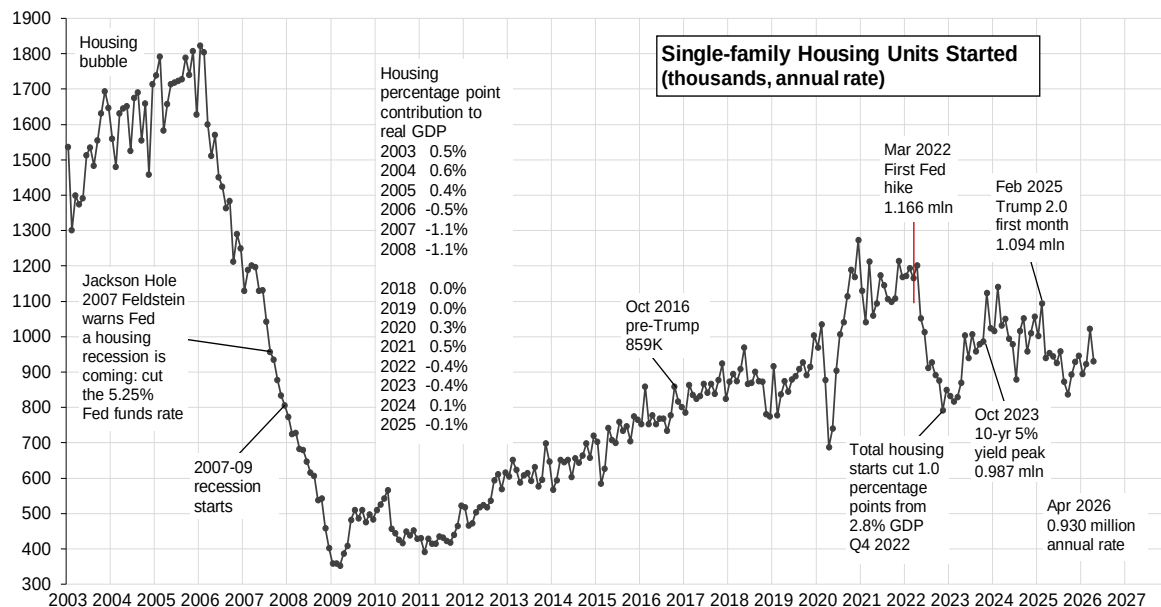
OTHER ECONOMIC NEWS

Single-family home construction falls (Thursday)

Breaking economy news. A chaos residential housing construction report for April today across regions and single versus multifamily. The housing starts data were revised back to January 2021, but no real changes in the graph below. Single family starts plummeted by 9.0% to 930K in April from 1022K in March, back close to 923K in February. Multifamily starts jumped to 529K in April from 463K in March, the highest since May 2023, although increased building in the West was offset by a sharp drop in the South.

Net, net, Americans looking to buy a new single-family home of their own will remain disappointed as both permits and starts fell this month after a huge and now temporary increase in March. There is a nationwide shortage of single-family homes and this trend will likely continue with no new supply coming on the market. Inflation and financing is pushing building costs sharply higher and that will make new homes even more unaffordable if you could find one. Overall housing starts did not fall back as much because multifamily starts jumped in the Northeast and out in the West. If you can't buy it, then rent it is what builders are saying. Stay tuned. Housing construction has not added positively to real GDP growth since the fourth quarter of 2024 and that trend will likely continue for now.

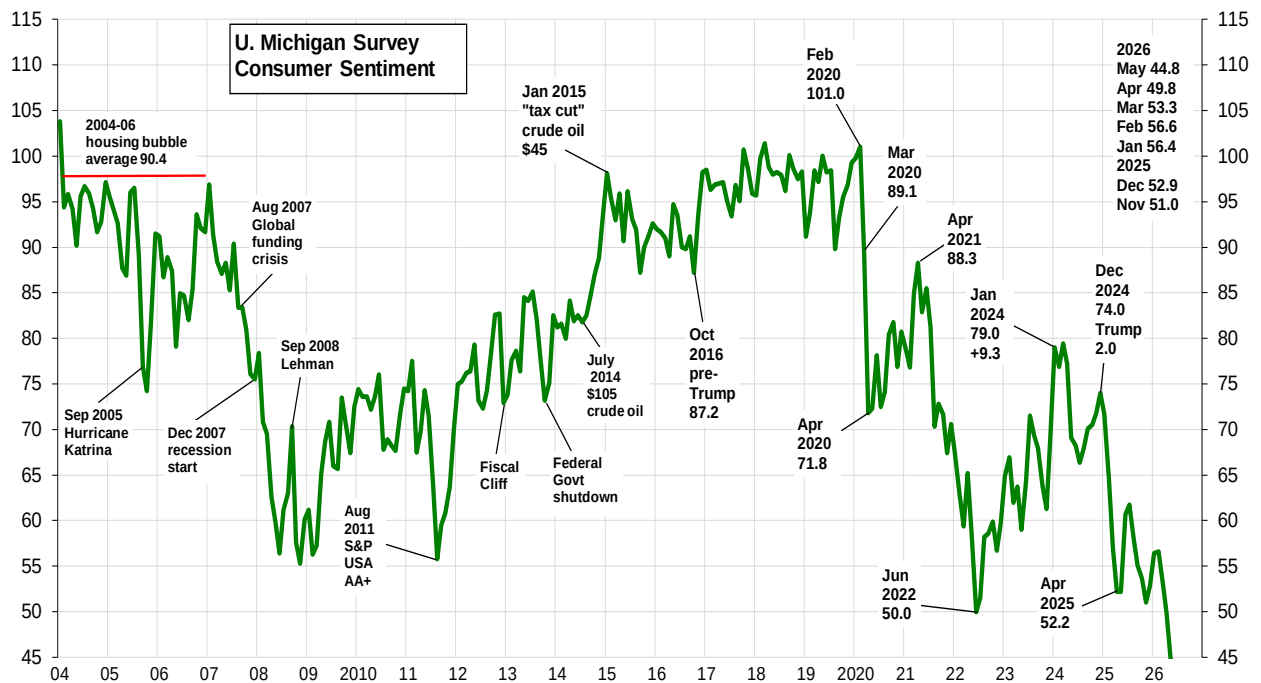
Housing Starts Total, Single-Family, Multi-Family											
000s	United States			Northeast		Midwest		South		West	
	Total	1 unit	Multi	Total	1 unit	Total	1 unit	Total	1 unit	Total	1 unit
Apr 2026	1465	930	529	180	52	206	138	723	548	356	192
Mar 2026	1507	1022	463	155	64	201	146	812	563	339	249
Apr 2025	1400	953	429	186	78	228	157	747	539	239	179
% Chgs											
Apr/Mar	-2.8	-9.0	...	16.1	-18.8	2.5	-5.5	-11.0	-2.7	5.0	-22.9
Apr/Apr	4.6	-2.4	...	-3.2	-33.3	-9.6	-12.1	-3.2	1.7	49.0	7.3



Michigan sentiment over the cliff (Friday)

Breaking economy news. A new low for the consumer sentiment index from the University of Michigan at 44.8 in May, just below the last rung on the graph scale below. The index slides around a lot over economic cycles, it was never this low during the double-digit unemployment and inflation of the early 80s for example. But the drop since December 2024, the first month Trump was known to become President, is a stunning reversal of fortune that may yet lead to a bad economic outcome.

Net, net, consumer sentiment is falling off a cliff here and Washington economic officials are going to have to work overtime to shore up confidence. Consumers are still spending, but the cost of living crisis means that every last dollar in their wallets is getting paid out for life's bare necessities without any money leftover for entertainment or holidays. If the survey asked are you having fun yet, the resounding answer would come back a loud and clear negative. The American consumer is treading water here and the income tax refunds must be gone already or the money spent on the higher prices seen everywhere in the economy. The stock market record highs are having no effect whatsoever on cheering consumers up which means most Americans have the money locked up in 401K retirement accounts that cannot be drawn on to make life easier now.



Analyst Certification

The views expressed in this report accurately reflect the personal views of the research staff at FWDBONDS LLC, the primary analysts responsible for this report, about the subject securities or issuers referred to herein, and no part of such analysts' compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed herein.

The information herein is provided for information purposes only, and is not to be used or considered as an offer or the solicitation of an offer to sell or to buy or subscribe for securities or other financial instruments. Neither this nor any other communication prepared by FWDBONDS LLC should be construed as investment advice, a recommendation to enter into a particular transaction or pursue a particular strategy, or any statement as to the likelihood that a particular transaction or strategy will be effective in light of your business objectives or operations. Before entering into any particular transaction, you are advised to obtain such independent financial, legal, accounting and other advice as may be appropriate under the circumstances. In any event, any decision to enter into a transaction will be yours alone, not based on information prepared or provided by FWDBONDS LLC. FWDBONDS LLC hereby disclaims any responsibility to you concerning the characterization or identification of terms, conditions, and legal or accounting or other issues or risks that may arise in connection with any particular transaction or business strategy. While FWDBONDS LLC believes that any relevant factual statements herein and any assumptions on which information herein are based, are in each case accurate, FWDBONDS LLC makes no representation or warranty regarding such accuracy and shall not be responsible for any inaccuracy in such statements or assumptions. Note that FWDBONDS LLC may have issued, and may in the future issue, other reports that are inconsistent with or that reach conclusions different from the information set forth herein. Such other reports, if any, reflect the different assumptions, views and/or analytical methods of the analysts who prepared them, and FWDBONDS LLC is under no obligation to ensure that such other reports are brought to your attention.

Copyright 2026 FWDBONDS LLC All Rights Reserved

The articles and opinions in this publication are for general information only, are subject to change, and are not intended to provide specific investment, legal, tax or other advice or recommendations. The information contained herein reflects the thoughts and opinions of the noted authors only. We are not offering or soliciting any transaction based on this information. We suggest that you consult your attorney, accountant or tax or financial advisor with regard to your situation. Although information has been obtained from sources we believe to be reliable, neither the authors nor FWDBONDS LLC vouch for its accuracy, and such information may be incomplete or condensed. Neither the authors nor FWDBONDS LLC shall be liable for any typographical errors or incorrect data obtained from reliable sources or factual information.

Opinions, estimates, forecasts, and other views contained in this document are those of the FWDBONDS LLC research group, and does not necessarily represent the views of FWDBONDS LLC or its management. Although the Financial Markets This Week newsletter attempts to provide reliable, useful information, it does not guarantee that the information or other content in this document is accurate, current or suitable for any particular purpose. All content is subject to change without notice. All content is provided on an "as is" basis, with no warranties of any kind whatsoever. Information from this document may be used with proper attribution. Alteration of this document or its content is strictly prohibited. ©2026 by FWDBONDS LLC.

By the way, in the way of the usual disclaimers, this is a final legal reminder that there is no investment advice offered or given anywhere in this newsletter or on the fwdbonds.com website. These are just the things we would like to see before we save, invest, spend, and otherwise plan for the future, which of course is always uncertain.