Financial Markets This Week

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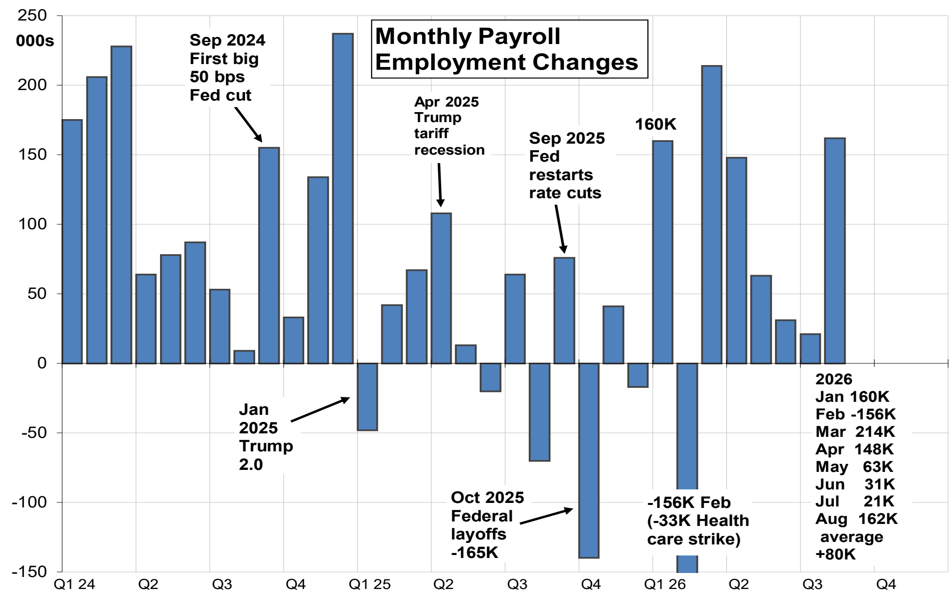
4 SEPTEMBER 2026

JOBS REBOUND



162 thousand payroll jobs in August is a big number, and including 55K in upward revisions to June/July, it means there are 217 thousand more consumers with paychecks out there to fuel economic growth. So much for the discussion of the breakeven amount of jobs creation needed to keep unemployment from rising. That number used to be 40 to 60 thousand, now it is maybe zero due to the virtual ground-stop on immigration. Unemployment was unchanged at 4.1% in August. The BLS also reported today the civilian noninstitutional population increased just 1.4 million to 275.4 million in August from year-ago levels, or 117K per month, while employment dropped 621K and labor force dropouts jumped 2.1 million. The Household Survey of employment did increase 569K in August, despite falling year-on-year, but this measure of employment no longer trends very close with the payroll employment figures that are up 603K in August from a year ago. We blame the divergence on the radical immigration policies under Trump 2.0.

Monthly changes (000s)	Aug	Jul	Jun	May	Apr
Payroll employment	162	21	31	63	148
Private jobs	127	71	26	61	150
Federal govt ex-post office	-3	-6	0	0	0
Bars/Restaurants	59	-10	-7	25	5
HH Employment Survey*	569	-87	-507	149	-226
Unemployment rate %	4.14	4.09	4.19	4.30	4.34
Participation rate %	61.6	61.4	61.5	61.8	61.8
Not in labor force (mln)	105.638	106.189	105.808	104.976	104.959
... and Want A Job (mln)	5.747	5.920	6.045	6.187	6.111
Average hourly earnings	$37.75	$37.65	$37.59	$37.49	$37.41
MTM % Chg	0.3	0.2	0.3	0.2	0.2
YOY % Chg	3.1	3.2	3.4	3.3	3.6
* Household (telephone) Survey of employment behind unemployment rate					

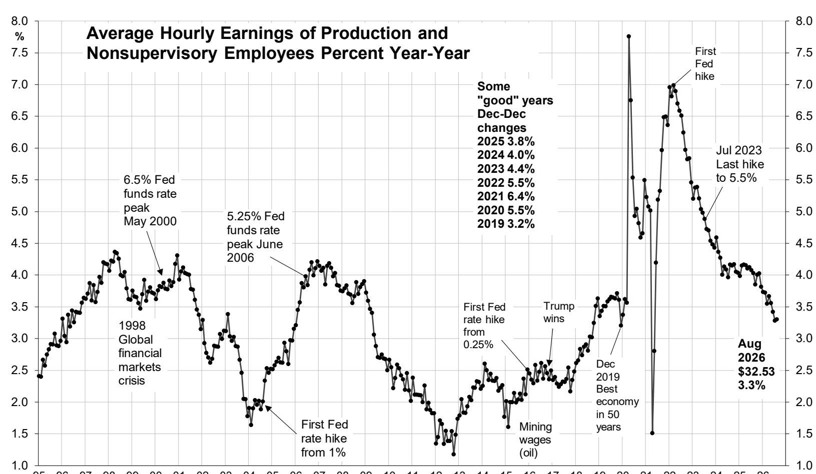
So 162K payroll jobs in August after a revised 21K in July. But if we factor out the big changes in bars and restaurants, and in local government jobs, set them to zero the last two months, then payroll employment was up 53K in August after an increase of 93K in July. This adjustment tries to bring some calm to the monthly payroll jobs that have been volatile if not chaotic since the President's economic policy officials have returned to Washington. A further note on the graph shows the Fed's rate cuts from 5.5% in September 2024 have not led to better labor market conditions, the 175 bps of rate cuts have not. Makes you wonder if Fed policy is losing its powers to affect economic conditions, curb inflation or fuel growth. This is our view of Fed policy where officials should normally do nothing. Fed governor Powell would probably say not so fast, the unemployment rate was 4.2% when they cut rates in September 2024, up from the “cycle low” of 3.4% in April 2023, and their quick action kept the jobless rate from spiraling even higher. Here are our initial remarks written with the help of AI immediately upon the release of the August employment report at 830am ET on Friday.

Net, net, the labor market is alive and well and generating thousands of new jobs to help keep economic growth squarely in the plus column. Fed officials have characterized the employment markets as stable but today’s stellar jobs report shows hiring is surprisingly robust given the high level of energy prices and the ongoing affordability crisis. Businesses are hiring, even if some of the gains may be temporary given the rebound in restaurants and bars, and local government hiring which had seen losses the month before. Still, 162 thousand payroll jobs show the economy isn’t going off the rails yet, the 55K of upward revisions is icing on the cake, and the uncertainty of the Iran war was not the blow for the labor markets that economists warned about. The only fear is the Fed itself if it thinks economic demand is hot enough to need a rate hike in a couple of weeks. The bond market has completely turned around with higher yields today as all eyes are on the Fed.

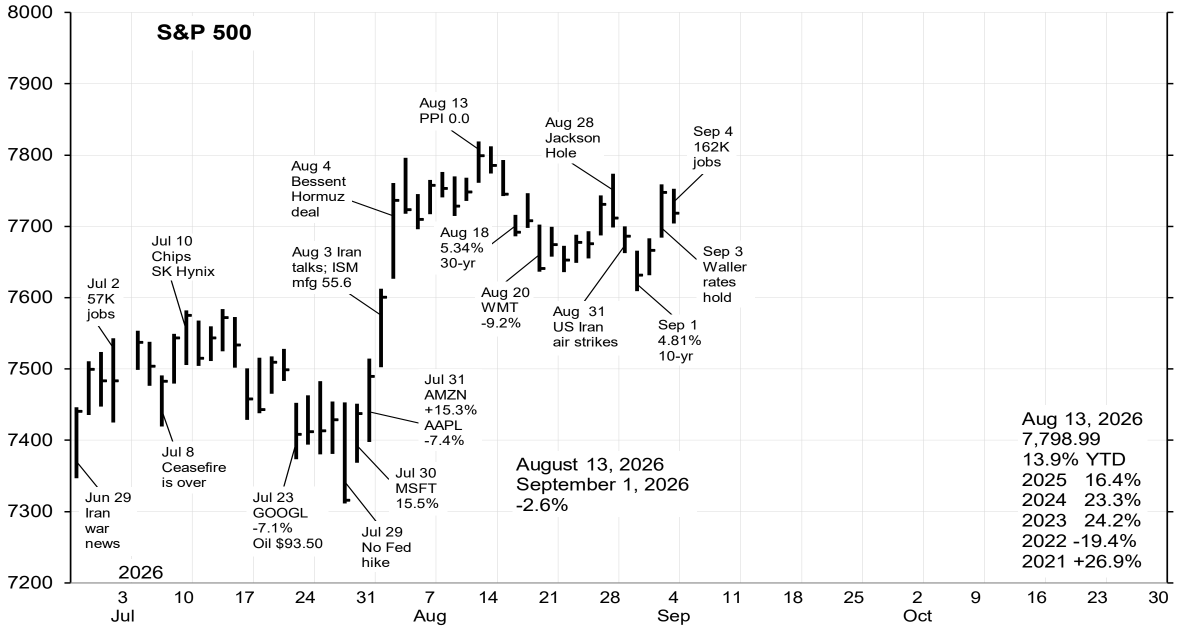
P.S. Wages are falling, talk to the boss.

2026 Payroll jobs rebound

Dec. 2025 Totals millions		Aug	Jul 26	Jun 26	8 months Dec 25 to Aug 26	12 months Dec 24 to Dec 25
158.432	Nonfarm Payroll Employment	162	21	31	643	116
135.083	Total Private (ex-Govt)	127	71	26	669	296
21.456	Goods-producing	41	29	14	150	-135
0.566	Mining	3	-4	-2	4	-15
12.580	Manufacturing	16	14	13	58	-113
0.951	Motor Vehicles & parts	-5	11	0	12	-37
0.990	Computer/electronics	1	2	1	9	-22
1.780	Food manufacturing	-2	-4	-1	-16	1
8.272	Construction	22	18	3	87	-4
5.222	Specialty trade contractors	11	12	3	54	-17
113.627	Private Service-providing	86	42	12	519	431
28.616	**Trade, transportation, utilities**	16	34	4	162	-195
15.414	Retail stores	1	13	10	75	-47
3.217	General Merchandise	13	9	7	54	-16
3.247	Food & Beverage stores	-4	-2	1	3	3
6.555	Transportation/warehousing	5	14	-10	51	-108
1.467	Truck transport	5	0	-3	3	-28
0.571	Air transportation	-1	0	0	-5	8
1.051	Couriers/messengers	-3	16	-12	45	-43
1.836	Warehousing and storage	-3	-6	4	1	-45
2.842	**Information**	-23	5	-19	-97	-53
0.473	Computing, data, web hosting	-8	1	-6	-20	-8
9.186	**Financial**	-11	-11	2	-100	7
2.993	Insurance	-6	-6	-4	-63	-23
2.452	Real Estate	-4	2	-2	-17	-4
1.371	Commercial Banking	-2	-2	-2	-23	-7
1.158	Securities/investments	2	1	6	16	34
22.372	**Professional/business**	10	15	36	155	-160
2.451	Temp help services	7	5	17	68	-91
2.622	Management of companies	1	5	-1	0	3
1.746	Architectural/engineering	2	3	1	25	33
2.381	Computer systems/services	-1	-5	-2	-18	-51
1.231	Legal services	1	1	6	15	24
1.130	Accounting/bookkeeping	-2	2	1	-5	5
27.627	**Education and health**	29	12	50	347	682
4.039	Educational services	1	-2	12	6	-5
18.295	Health care	13	13	18	225	387
9.121	Ambulatory health care	7	14	3	128	167
5.719	Hospitals	8	-2	10	58	137
3.456	Nursing/residential care	-2	2	6	40	83
5.292	Social assistance	16	0	20	116	299
16.961	**Leisure and hospitality**	62	-21	-54	40	99
1.939	Hotel/motels	9	2	-22	-12	-6
12.343	Eating & drinking places	59	-10	-7	84	78
23.349	Government	35	-50	5	-26	-180
2.128	Federal ex-Post Office	-3	-6	0	-55	-283
5.476	State government	-10	18	-5	-6	-39
2.603	State Govt Education	-9	19	3	7	-42
15.151	Local government	50	-62	10	28	146
8.232	Local Govt Education	42	-58	6	-38	58



INTEREST RATES



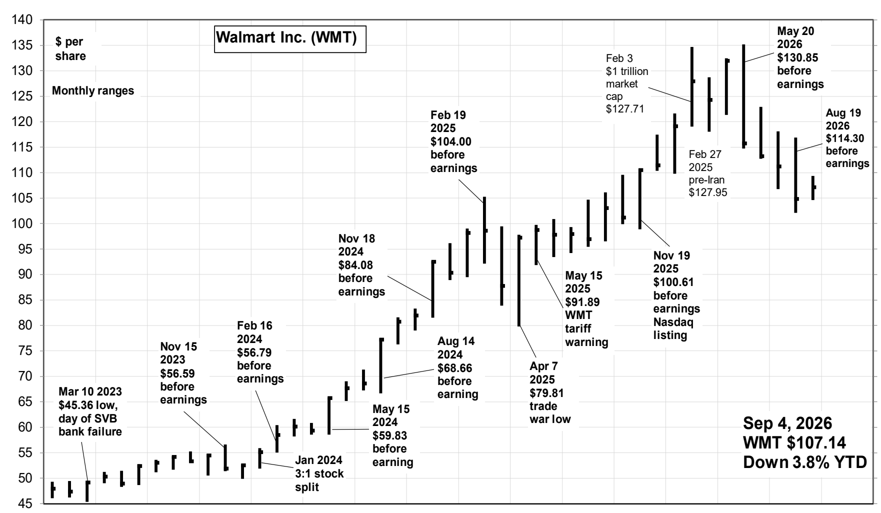
The seasonal sell-off in equities each September got a boost from higher 10-year yields, highs of 4.77% Monday, and 4.81% Tuesday. Stocks fell as much as 2.6% at Tuesday's S&P 500 low versus the August 13, 2026 record high. As far as the bond market sell-off to a 4.82% 10-yr on Wednesday, we aren't sure this is a make-or-break moment for the economy although the housing sector won't like the 6.71% 30-yr fixed mortgage rate this week. It is probably best for the Treasury secretary to stop talking about bonds. We forgot why they are doing buybacks. Q2 2026 buybacks were $92.0 billion against the need to fund the $2 trillion-plus Federal budget deficit this year. Treasury sells $25 billion 30-yrs each month. Markets are waiting for PPI Thursday, September 10, and CPI Friday, September 11 to judge yet again whether the Fed needs to hike interest rates. 10-yr closed 4.79%

Walmart Inc. (WMT) down 3.8% YTD

Expectations are everything as the stock has fallen after two quarterly earnings reports this year. Q2 2026 Walmart US Comp sales ex-fuel are slower, the company tried to explain part of it away, but then operating income was 28.8% higher at $9.4 billion versus $7.3 billion a year ago. The company said it had received $2.9 billion in tariff refunds that allowed it to roll back prices. Walmart raised its fiscal year 2027 (January end) guidance for sales and operating income.

Bln $	Revenue	Operating Income	Same-store Sales YOY *	13-weeks ending *
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
Q2 2026	187.9	9.4	2.6%	7/31/2026

* Walmart U.S. comparable sales, ex-fuel



FEDERAL RESERVE POLICY

The Fed meets September 15-16, 2026 to consider its monetary policy. A week ago, Warsh at Jackson Hole said the Committee had work to do if inflation does not come down. On Thursday, Fed governor Waller said he would consider keeping rates unchanged at 3.75% if the disinflation trend continues with the upcoming CPI/PPI inflation reports. Good to see Fed officials still want to communicate to the markets. Fed funds futures yields rose 5.5 bps on Warsh, and fell 3.5 bps on Waller. Let the best man win. No contest however as Friday's employment report heated up to 162K payroll jobs, and October Fed future yields rose 2.5 bps. Warsh's right-hand man, New York Fed President Williams who is Vice Chair of the FOMC, did not sound in favor of a rate hike, and Fed governor Waller sees disinflation and is unlikely to vote for a hike unless CPI/PPI suddenly worsen. The 162K jobs report is not likely to convince many Fed officials the economy is suddenly taking off. On Friday, the President said he wants a rate cut. That settles it.

Selected Fed assets and liabilities

Fed H.4.1 statistical release billions, Wednesday data	2-Sep	26-Aug	19-Aug	12-Aug	3/11/20*	Change from 3/11/20 to Sep 2
Factors adding reserves						
U.S. Treasury securities	4552.347	4546.169	4542.228	4538.288	2523.031	2029.316
Federal agency debt securities	2.347	2.347	2.347	2.347	2.347	0.000
Mortgage-backed securities (MBS)	1913.585	1913.585	1930.728	1930.855	1371.846	541.739
Repurchase agreements	0.000	0.003	0.001	0.000	242.375	-242.375
Primary credit (Discount Window)	5.282	4.890	5.038	5.644	0.011	5.271
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	0.016	0.016	0.016	0.016		
Main Street Lending Program	0.895	0.894	0.727	0.728		
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	0.132	0.121	0.123	0.132	0.058	0.074
Federal Reserve Total Assets	6788.9	6782.6	6797.4	6811.6	4360.0	2428.921
~~3-month Libor %~~ SOFR %	3.65	3.64	3.62	3.62	1.15	2.500
Factors draining reserves						
Currency in circulation	2482.031	2478.052	2475.537	2475.558	1818.957	663.074
Term Deposit Facility	0.000	0.000	0.000	0.000	0.000	0.000
U.S. Treasury Account at Fed	944.364	959.435	936.406	959.405	372.337	572.027
Treasury credit facilities contribution	0.000	0.000	0.000	0.000		
Reverse repurchases w/others	0.525	0.702	0.317	0.725	1.325	-0.800
Federal Reserve Liabilities	3859.662	3865.795	3866.586	3864.013	2580.036	1279.626
Reserve Balances (Net Liquidity)	2929.285	2916.824	2930.817	2947.630	1779.990	1149.295
Treasuries within 15 days	93.581	113.163	116.943	118.118	21.427	72.154
Treasuries 16 to 90 days	399.688	368.124	361.022	366.024	221.961	177.727
Treasuries 91 days to 1 year	532.944	537.361	536.473	514.785	378.403	154.541
Treasuries over 1-yr to 5 years	1427.478	1434.042	1434.175	1434.557	915.101	512.377
Treasuries over 5-yrs to 10 years	473.534	471.393	471.415	488.812	327.906	145.628
Treasuries over 10-years	1625.121	1622.087	1622.201	1615.992	658.232	966.889
Note: QT starts June 1, 2022	Change	9/2/2026	6/1/2022			
U.S. Treasury securities	-1218.432	4552.347	5770.779			
Mortgage-backed securities (MBS)	-793.861	1913.585	2707.446			

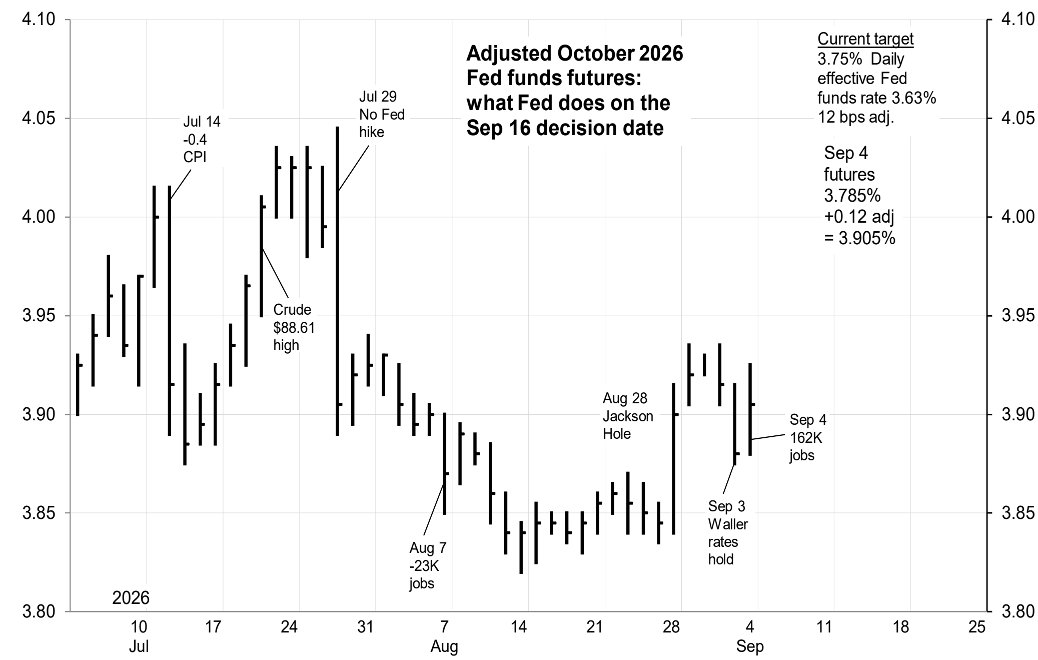
**March 11, 2020 start of coronavirus lockdown of country

Warsh Jackson Hole

Here is my standard: We must be confident that underlying inflation is moving to our objective, clearly and at sufficient speed. Otherwise, we have work to do. That's our job . . . our mandate . . . and our charge to keep.

About 50/50 for a September rate hike, Fed officials need 100% done.

Fed funds futures call Fed policy	
Current target: Sep 4 -- 3.75%	
Rate+0.12 Contract	Fed decision dates
3.900 Oct 2026	Sep 16*
4.095 Jan 2027	Adds Oct 28, Dec 9*
4.145 Feb 2027	Adds Jan 27
*Oct 2026 could be 3 days at a new rate	
*Jan 2027 could be 4 days at a new rate	



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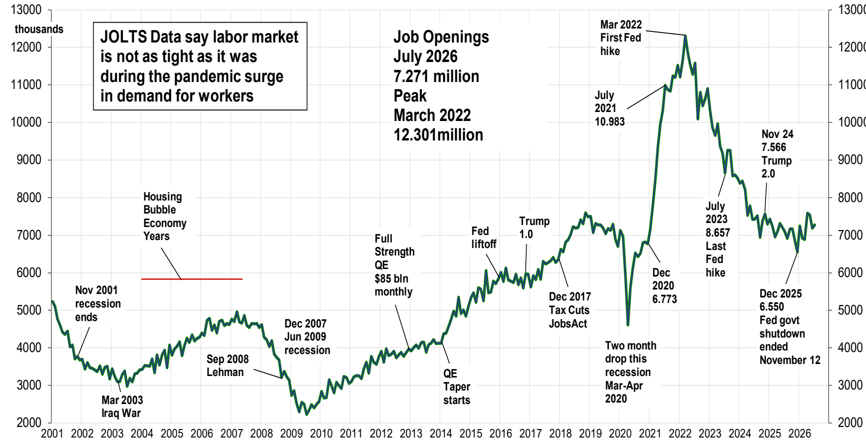
Next up: August CPI inflation Friday, September 11 830am ET

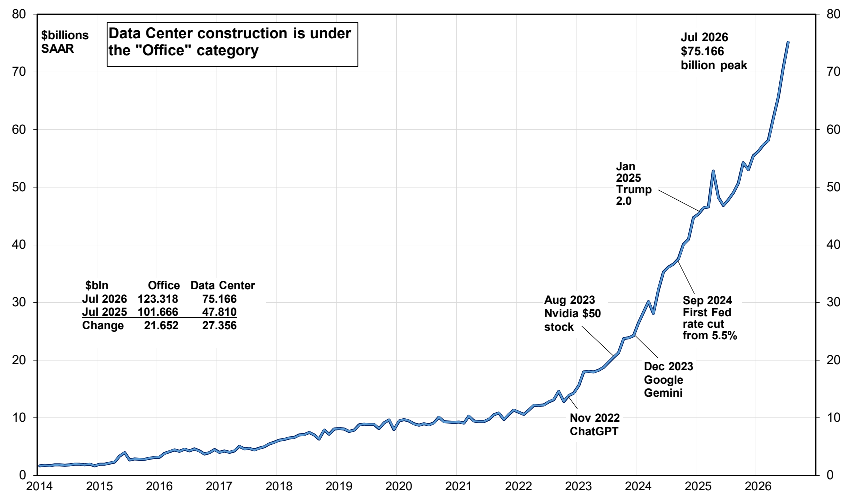
Monthly	2026							2025						
% Changes	Aug	Jul	Jun	May	Apr	Mar	Feb	Jan	Dec	Nov	Oct	Sep	Aug	Jul	Jun
Core CPI inflation		0.2	0.0	0.2	0.4	0.2	0.2	0.3	0.2	na	na	0.2	0.3	0.3	0.2
Core PCE inflation		0.2	0.1	0.4	0.3	0.3	0.4	0.4	0.3	0.2	0.2	0.2	0.2	0.2	0.3
Core PCE YOY		3.3	3.3	3.5	3.3	3.3	3.0	3.1	3.0	2.8	2.8	2.8	2.9	2.9	2.8
Core CPI YOY		2.5	2.6	2.8	2.7	2.6	2.5	2.5	2.6	2.6	na	3.0	3.1	3.1	2.9

OTHER ECONOMIC NEWS

Economic data nothing to cheer about (Tuesday)



Breaking economy news. Employment opportunities remain lower than earlier this year even if job openings ticked up modestly at the end of July. Openings rose 89K to 7.271 million across the nation in July with healthcare and social assistance needing 54K more workers. White collar professional and business services have sharply cut back their need for workers with openings of 1.138 million in July down from 1.473 million as recently as April as the Iran war uncertainty weighs on the outlook.



Meanwhile, new jobs are not coming back to America yet with construction falling sharply this year for manufacturing factories. Construction workers are needed mostly for data centers and if it were not for AI, construction employment would be looking more recession-like. If the AI spending is going to be temporary, then the economy is in trouble once the data centers are all up and running. The same thing happened with manufacturing construction tied to the CHIPS Act which has now virtually dried up. Stay tuned. The economy is running in a lower gear which begs the question why Fed officials would consider hitting the brakes with a rate hike when the outlook for growth is not certain. The Jolts data say more construction jobs are available, but for how long given most of the construction is for data centers where all the projects will eventually be completed. The economic data are nothing to cheer about. Bet on it.

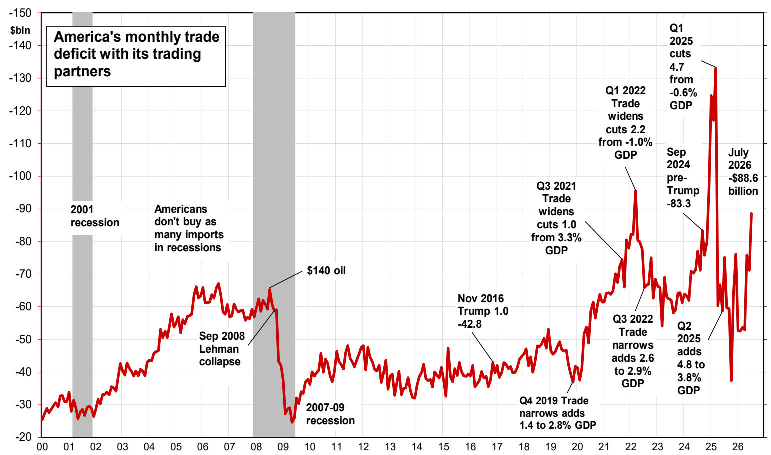
Value of Private Nonresidential Construction Put in Place ($mln SAAR)					
	Jul 26	Dec 25	Dec 24	Dec 23	Dec 22
Total	755,169	750,768	804,706	791,368	663,906
$ chg	4,401	-53,938	13,338	127,462	145,280
Office	123,318	107,066	99,316	87,235	87,411
Data center	75,166	55,461	44,703	24,238	14,244
$ chg	19,705	10,758	20,465	9,994	2,920
Other office	48,152	51,605	54,613	62,997	73,167
Manufacturing	167,805	180,751	240,906	229,932	158,606
Computer***	51,304	70,760	115,912	120,840	69,758
$ chg	-19,456	-45,152	-4,928	51,082	47,767
Other mfg	116,501	109,991	124,994	109,092	88,848
*** Computer/electronic/electrical					

Final notes on the data. Data Center construction has exploded since May this year, either that or it is hard to count with June figures coming in today at $68.297 billion and now July is $75.166 billion after upward revisions and another month of data. Construction activity subtracted 0.1 percentage points from Q2 2026 1.5% real GDP, and it would have fallen further without data centers. Manufacturing, despite the drop from CHIPS, has seen some increase in “transportation” which is likely construction by some automakers to avoid tariffs perhaps.

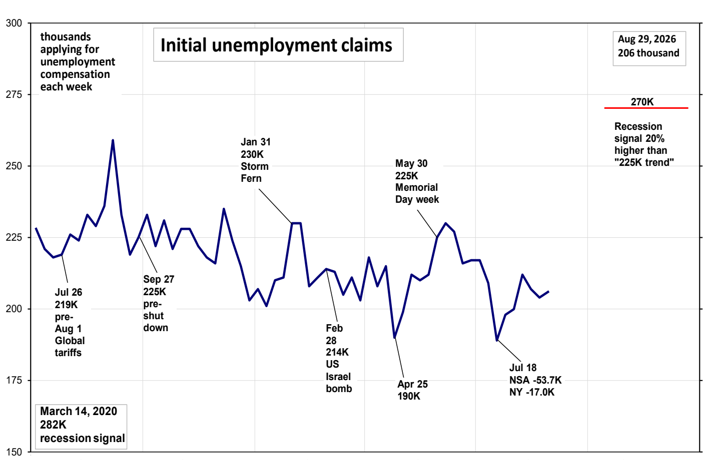
More trade deficit red ink and Waller too (Thursday)

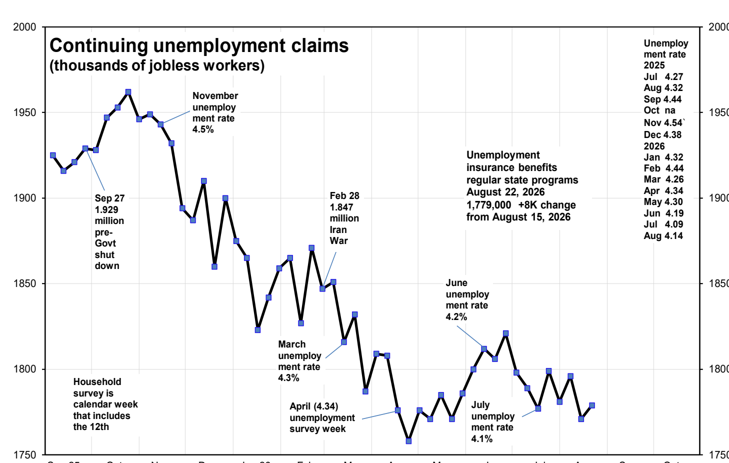
$mln	Trade balance			Exports			Imports		
	Total	Goods	Services	Total	Goods	Services	Total	Goods	Services
Jun 2026	-71,182	-101,973	30,791	317,335	207,248	110,087	388,517	309,220	79,296
Jul 2026	-88,576	-119,592	31,016	310,723	201,035	109,688	399,299	320,627	78,672
Change	-17,394	-17,619	225	-6,612	-6,213	-399	10,782	11,407	-624

Breaking economy news. The trade deficit jumped $17.4 billion to $88.6 billion in July. Export goods were down partly on a $4.5 billion drop in crude oil for price reasons. AI imported goods purchases rose $6.9 billion for computers, $6.6 billion for computer accessories, and $1.2 billion for semiconductors. Trade winds have been volatile this year, but with exports down and imports higher this month, it looks like the drag on GDP growth in the third quarter will be more than the 1.1 percentage point drag on the second quarter's 1.5% real GDP. China imports were still modest at $27.1 billion in July versus $26.4 billion in July 2026. The country data are not seasonally adjusted.



Net, net, the Administration's efforts at controlling the international trade deficit red ink reached a new level of failure with the July deficit the largest so far this year. This greater demand for imports will take a toll on real GDP growth in the third quarter and curb the bragging rights for Washington economic officials. 10-year yields dropped sharply, not so much on the story painted of economic weakness by a widening trade deficit, but rather because Fed governor Waller adjusted his inflation view yet again and now says he would be in favor of holding rates steady at the meeting in a couple of weeks if the signs of disinflation continue in upcoming economic reports. Stay tuned. The best quarters for real GDP growth under the Trump administration in the middle of 2025 were boosted by the trade deficit falling sharply, but now the shoe is on the other foot and economic growth in the current quarter will be restrained by the jump in net exports. AI spending by companies has boosted equipment expenditures and helped fuel the modest economic growth seen in the first half this year, but the economy overall cannot be said to be experiencing a boom based on the President's economic policies with subpar growth of 2.1% in the first quarter and 1.5% in the second quarter.





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