WEEKLY ECONOMIC UPDATE

Summary

Equities softened last week as investors pulled back from tech stocks and policy-related uncertainty continued to ripple through markets. Treasury yields rose across the curve, reflecting stronger-than-expected economic activity data and signals that the Fed is unlikely to agressively cut in 2026. Headline CPI rose 0.3% in December, as expected, while core CPI rose 0.2%, softer than expectations of 0.3%. The PPI for November increased 0.2%, while core PPI was unchanged, pointing to easing upstream price pressures. Industrial production rose faster than expected at 0.4% in December, while capactiy utilization rose to 76.3%. Both industrial production and capacity utilization were primarly driven by the utilities sector. New home sales remained steady in September and October. Existing home sales had their strongest month in nearly three years as price pressures began to alleviate; however, annual sales in 2025 remained historically low.

Last Week: Indicator	Number Reported	Consensus Expectation*	Comment
CPI (Dec – Tue 08:30)	+0.3%	+0.3%	
Core CPI (Dec – Tue 08:30)	+0.2%	+0.3%	
New Home Sales (Oct – Tue 10:00)	737K	NA	
New Home Sales (Sep – Tue 10:00)	738K	710K	
Treasury Budget (Dec – Tue 14:00)	-$144.7B	-$223.0B	
MBA Mortgage Applications Index (01/10 – Wed 07:00)	+28.5%	NA	
Retail Sales (Nov – Wed 08:30)	+0.6%	+0.4%	
Retail Sales, Ex-Auto (Nov – Wed 08:30)	+0.5%	+0.3%	
PPI (Nov – Wed 08:30)	+0.2%	+0.2%	
Core PPI (Nov – Wed 08:30)	+0.0%	+0.2%	
Existing Home Sales (Dec – Wed 10:00)	4.35M	4.15M	
Initial Claims (01/10 – Thu 08:30)	198K	210K	
Continuing Claims (01/03 – Thu 08:30)	1,884K	NA	
Import Prices (Nov – Thu 08:30)	+0.4%	NA	
Import Prices ex-oil (Nov – Thu 08:30)	+0.6%	NA	
Export Prices (Nov – Thu 08:30)	+0.5%	NA	
Export Prices ex-ag. (Nov – Thu 08:30)	+0.4%	NA	
Industrial Production (Dec – Fri 09:15)	+0.4%	+0.2%	
Capacity Utilization (Dec – Fri 09:15)	76.3%	76.0%	

Next Week: Indicator	Consensus Expectation*	Prior	Comment
Housing Starts (Dec – Wed 08:30)	NA	NA	
Building Permits (Dec – Wed 08:30)	NA	NA	
Construction Spending (Sep – Wed 10:00)	+0.0%	+0.2%	
Pending Home Sales (Dec – Wed 10:00)	+0.7%	+3.3%	
Construction Spending (Oct – Wed 10:00)	+0.2%	NA	
Personal Income (Oct – Thu 08:30)	+0.3%	+0.4%	
Personal Spending (Oct – Thu 08:30)	+0.1%	+0.4%	
PCE Price Index (Oct – Thu 08:30)	+0.2%	+0.3%	Core PCE Price Index (prior): +0.2%
Personal Income (Nov – Thu 08:30)	+0.4%	NA	
Personal Spending (Nov – Thu 08:30)	+0.4%	NA	
PCE Price Index (Nov – Thu 08:30)	+0.2%	NA	Core PCE Price Index (prior): NA
Initial Claims (01/17 – Thu 08:30)	200K	198K	
Continuing Claims (01/10 – Thu 08:30)	NA	1,884K	
GDP - Revised (Q3 – Thu 08:30)	4.3%	4.3%	
GDP Deflator - Revised (Q3 – Thu 08:30)	3.7%	3.8%	
Univ. of Michigan Consumer Sentiment - Final (Jan – Fri 10:00)	54.0	54.0	

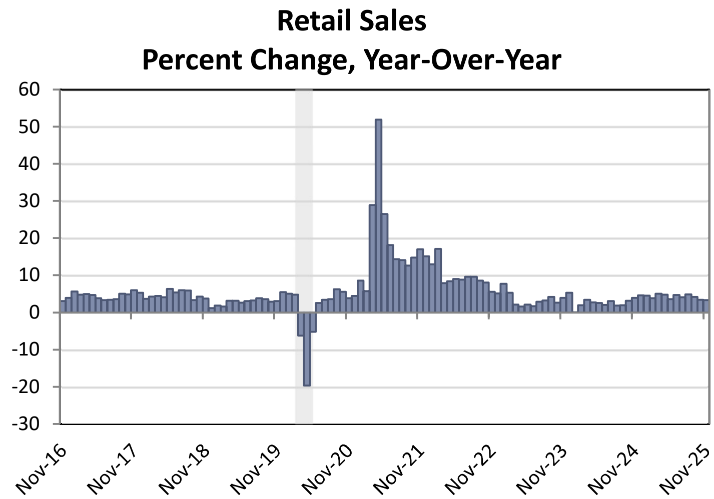
Sources: www.briefing.com and www.federalreserve.gov

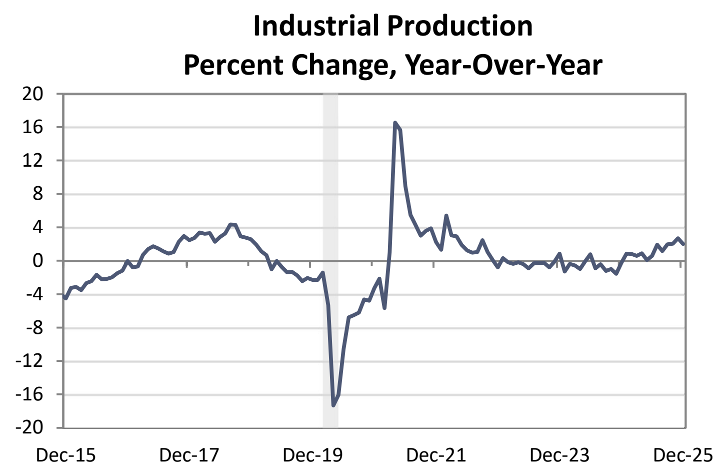
Economic Review

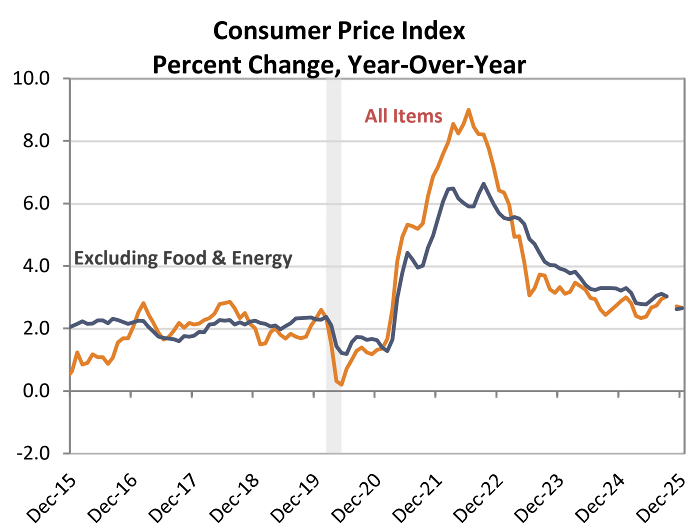
RETAIL SALES rebounded in November after a contraction in October (-0.1%), rising 0.6% month-over-month as consumer spending picked up during the holiday shopping season. The increase was broad-based with strength in several discretionary categories. Retail sales excluding autos increased 0.5%, and motor vehicle and parts sales jumped 1.0% after a sharp 1.6% decline in October. Clothing and clothing accessories store sales increased 0.9% and food services and drinking places sales increased 0.6%; however, this likely reflects both volume and rising prices as food inflation has remained stubborn throughout 2025.

INDUSTRIAL PRODUCTION strengthened in December, rising a higher-than-expected 0.4% month-over-month, following an upwardly revised 0.4% increase in November. The gain lifted year-over-year growth to 2.0%, signaling firmer momentum in late 2025 even as overall capacity utilization, at 76.3%, remained below its long-run average of 79.5%. After a positive upward revision to November's figure, manufacturing output rose a modest 0.2% in December, with capacity utilization holding steady at 75.6%. Utilities saw the largest month-over-month increase, rising 2.6% in December after contracting the previous month; capacity utilization in this sector also rose to 72.3% from 70.3% in November.

The December CPI report was cooler than expected, with headline CPI increasing 0.3%, in-line with expectations, after a 0.2% increase in November. Core CPI, which excludes food and energy, increased 0.2%. On a year-over-year basis, both headline and core measures remained unchanged at 2.7% and 2.6%, respectively. Food prices increased 0.7% month-over-month in December and were up 3.1% year-over-year, while energy prices rose 0.3% month-over-month and 2.3% year-over-year. Shelter inflation remained a key source of persistence, rising 0.4% month-over-month and 3.2% year-over-year. The overall services index was up 3.3% year-over-year. The report shows steady, but slow, progress on inflation, with month-over-month price pressures remaining contained, but with key components showing inflation levels well-above the Fed's 2% target. The persistence in underlying inflation suggests that any additional policy easing will remain cautious.







Fed Speeches

Speaking at the New England Economic Forum in Foxborough, Massachusetts, Vice Chair for Supervision Michelle W. Bowman outlined an economic outlook shaped by steady growth, easing inflation, and rising concern about labor market fragility.

Bowman emphasized that while headline indicators suggest continued expansion and progress toward the Federal Reserve's 2% inflation goal, underlying labor dynamics have weakened in ways that warrant closer attention. Her remarks framed last year's rate cuts as a preemptive response to emerging employment risks rather than a signal that inflation concerns have fully receded.

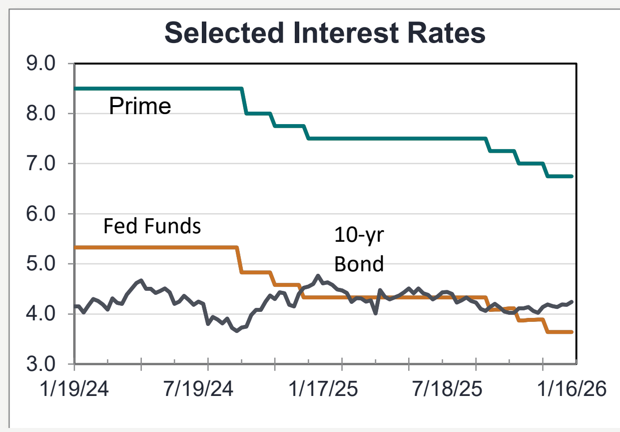
Bowman explained that her views shifted over the past year as evidence accumulated that inflation pressures, particularly those tied to tariffs, were likely to fade without becoming entrenched. At the same time, she pointed to a gradual cooling in labor demand, marked by slower hiring, increasingly concentrated job gains, and a rising unemployment rate. This configuration leaves the labor market vulnerable to downside shocks, even if current conditions still appear near full employment, warning that,

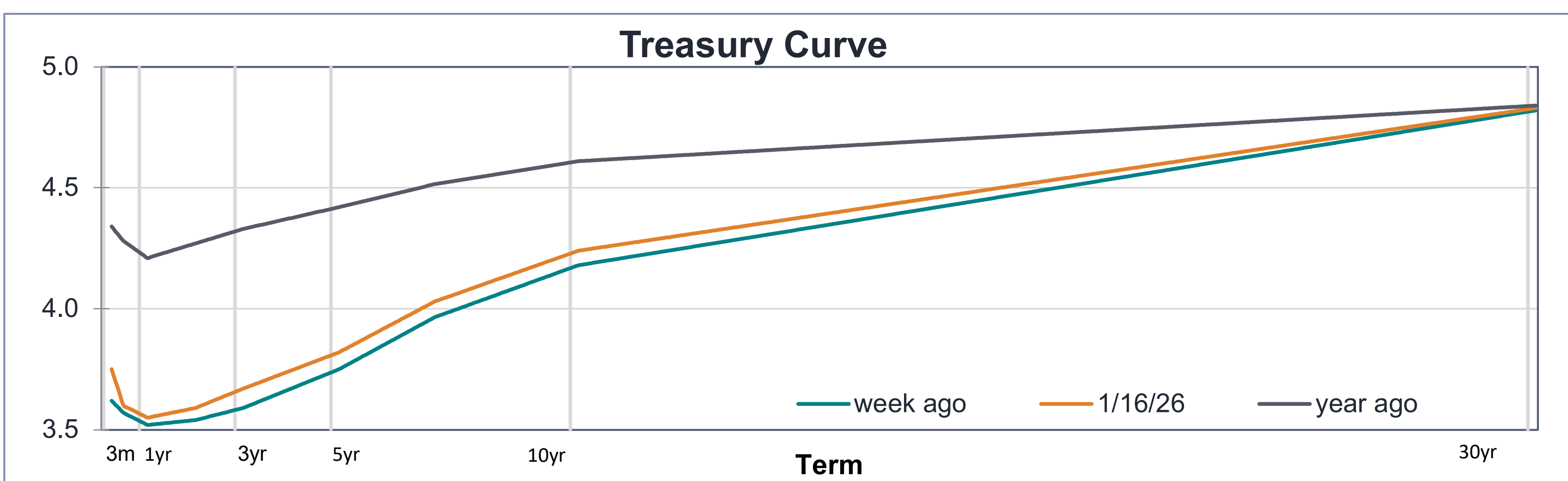
[c]ontinued softness in hiring, combined with already low hiring rates, means that even a small decline in demand could translate into a larger increase in unemployment.

Bowman argued that monetary policy should remain flexible and forward-looking as inflation continues to move closer to target and labor market risks tilt to the downside. She emphasized that policy is not on a preset course and that the appropriate path will depend on how the economy evolves, particularly whether labor market conditions stabilize or deteriorate further.

Financial Markets

Equity markets softened last week, with the DJIA (-0.3%), S&P 500 (-0.4%), and NASDAQ (-0.7%) all posting declines as investors pulled back from tech stocks. Despite this poor week-over-week reading, all three indices remain firmly higher than a month ago. Treasury yields increased across the curve, led by the short and intermediate maturities. The sharp rise in the three-month yield (+13 bps) suggests markets are reassessing the likelihood of additional near-term rate cuts, while increases in the two- and five-year yields reflect expectations that policy rates may remain stable for longer. Longer-term yields also edged higher, with the 10- and 30-year yields rising 6 and 1 bps, respectively, as stronger-than-expected economic data decreased the probabiliyt of aggressive cuts this year. The 30-year conventional mortgage rate measured at 6.06%, the lowest since 2022, while gold prices continued to climb, up 1.9% from the previous week.





Interest Rate Forecast*

During the Fed's December policy meeting, the Federal Open Market Committee (FOMC) lowered the federal funds target rate to 3.50% to 3.75%. In the statement released following the meeting, the FOMC stated, "In support of its goals and in light of the shift in the balance of risks, the Committee decided to lower the target range for the federal funds rate by 1/4 percentage point to 3-1/2 to 3-3/4 percent. In considering the extent and timing of additional adjustments to the target range for the federal funds rate, the Committee will carefully assess incoming data, the evolving outlook, and the balance of risks. The Committee is strongly committed to supporting maximum employment and returning inflation to its 2 percent objective."

Avg. for:	Prime	Fed Funds	SOFR	6-Mo. T-Bill	2-Yr. Note	10-Yr. Treasury	30-Yr Bond	30-Yr Mortgage
1st Qtr '26	6.75	3.63	3.65	3.65	3.52	3.99	4.62	6.07
2nd Qtr	6.59	3.46	3.49	3.53	3.48	3.93	4.32	5.98
3rd Qtr	6.50	3.38	3.40	3.46	3.46	3.89	4.24	5.93
4th Qtr	6.25	3.13	3.15	3.22	3.28	3.79	4.15	5.79
1st Qtr '27	6.08	2.96	2.98	3.07	3.14	3.71	4.09	5.69

January 2026

FINANCIAL MARKET SUMMARY

	As of 01/16/26	As of 01/09/26	Weekly Change	4-Week Change	13-Week Change
MONEY MARKETS (Changes in BPs)					
Prime	6.75	6.75	0	0	(50)
Secured Overnight Financing Rate (SOFR)	3.66	3.64	2	0	(64)
Fed Funds (Wed close)	3.64	3.64	0	0	(47)
TREASURIES (BE) (Changes in BPs)					
3 Months	3.75	3.62	13	13	(25)
6 Months	3.60	3.57	3	0	(19)
1 Year	3.55	3.52	3	4	(1)
2 Years	3.59	3.54	5	11	13
5 Years	3.82	3.75	7	12	23
10 Years	4.24	4.18	6	8	22
30 Years	4.83	4.82	1	1	23
MUNICIPALS- AAA G.O. & Mortgage (Changes in BPs)					
2-Year Muni	2.24	2.30	(6)	(21)	(13)
5-Year Muni	2.24	2.27	(3)	(16)	(3)
10-Year Muni	2.59	2.61	(2)	19	(19)
30-Year Muni	4.14	4.14	0	(5)	0
30-Year Conventional Mortgage	6.06	6.16	(10)	(15)	(21)
MARKET INDICATORS (Changes in %)					
DJIA	49,359.33	49,504.07	(0.3)	2.5	6.9
S&P 500	6,940.01	6,966.28	(0.4)	1.5	4.1
NASDAQ	23,515.39	23,671.35	(0.7)	0.9	3.7
CRB Futures	379.22	378.22	0.3	2.6	3.9
Oil (WTI Crude)	59.44	59.12	0.5	3.5	1.1
Gold	4,596.09	4,509.50	1.9	5.2	8.1
Yen / Dollar	158.12	157.89	0.1	1.5	4.6
Dollar / Euro	1.16	1.16	(0.3)	(1.0)	(0.5)