Summary

Equities advanced last week as euphoria concerning technology-driven productivity gains increased investors' risk appetites. Treasuries, however, relflected increasing hawkishness, with mixed employment data reducing chances of a January rate cut. The first clean employment report since the shutdown gave a mixed outlook on the labor market, with nonfarm payrolls increasing less than expected but the unemployment rate decreasing to 4.4%. Job openings continued to decline while productivity surged 4.9% in the third quarter, far exceeding expectations. Unit labor costs fell 1.9%, providing strong evidence that the loosening labor market is keeping wage-inflation in check as firms embrace technology-induced productivity gains.

Last Week: Indicator	Number Reported	Consensus Expectation*	Comment
ISM Manufacturing Index (Dec – Mon 10:00)	47.9%	48.4%	
MBA Mortgage Applications Index (01/03 – Wed 07:00)	-9.7%	NA	
ISM Non-Manufacturing Index (Dec – Wed 10:00)	54.4%	52.2%	
Factory Orders (Oct – Wed 10:00)	-1.3%	-1.0%	
JOLTS - Job Openings (Nov – Wed 10:00)	7.146M	NA	
Initial Claims (01/03 – Thu 08:30)	208K	217K	
Continuing Claims (12/27 – Thu 08:30)	1,914K	NA	
Productivity-Prel (Q3 – Thu 08:30)	+4.9%	+2.5%	
Unit Labor Costs-Prel (Q3 – Thu 08:30)	-1.9%	+0.8%	
Trade Balance (Oct – Thu 08:30)	-$29.4B	-$61.3B	
Wholesale Inventories (Oct – Thu 10:00)	+0.2%	+0.2%	
Consumer Credit (Nov – Thu 15:00)	$4.2B	$10.3B	
Nonfarm Payrolls (Dec – Fri 08:30)	+50K	+55K	
Nonfarm Private Payrolls (Dec – Fri 08:30)	+37K	+50K	
Unemployment Rate (Dec – Fri 08:30)	4.4%	4.5%	
Average Hourly Earnings (Dec – Fri 08:30)	+0.3%	+0.3%	
Average Workweek (Dec – Fri 08:30)	34.2	34.3	
Housing Starts (Sep – Fri 08:30)	1,306K	1,320K	
Building Permits (Sep – Fri 08:30)	1,415K	1,340K	
Housing Starts (Oct – Fri 08:30)	1,246K	1,340K	
Building Permits (Oct – Fri 08:30)	1,412K	1,355K	
U. of Michigan Consumer Sentiment - Prelim (Jan – Wed 10:00)	54.0	53.0	

Next Week: Indicator	Consensus Expectation*	Prior	Comment
CPI (Dec – Sun 08:30)	0.3%	0.2%	Core CPI (prior): +0.2%
New Home Sales (Sep – Sun 10:00)	710K	800K	
Treasury Budget (Dec – Sun 14:00)	-$223.0B	-$173.0B	
MBA Mortgage Applications Index (01/10 – Mon 07:00)	NA	-9.7%	
Retail Sales (Nov – Mon 08:30)	+0.4%	+0.0%	Retail sales ex auto (prior): +0.4%
PPI (Nov – Mon 08:30)	0.2%	0.3%	Core PPI (prior): +0.1%
Current Account Balance (Q3 – Mon 08:30)	NA	-$251.3B	
Existing Home Sales (Dec – Mon 10:00)	4.15M	4.13M	
New Home Sales (Oct – Mon 10:00)	NA	NA	
Initial Claims (01/10 – Tue 08:30)	210K	208K	
Continuing Claims (01/03 – Tue 08:30)	NA	1914K	
Import Prices (Nov – Tue 08:30)	NA	NA	
Export Prices (Nov – Tue 08:30)	NA	NA	
Industrial Production (Dec – Wed 09:15)	+0.2%	+0.2%	
Capacity Utilization (Dec – Wed 09:15)	76.0%	76.0%	

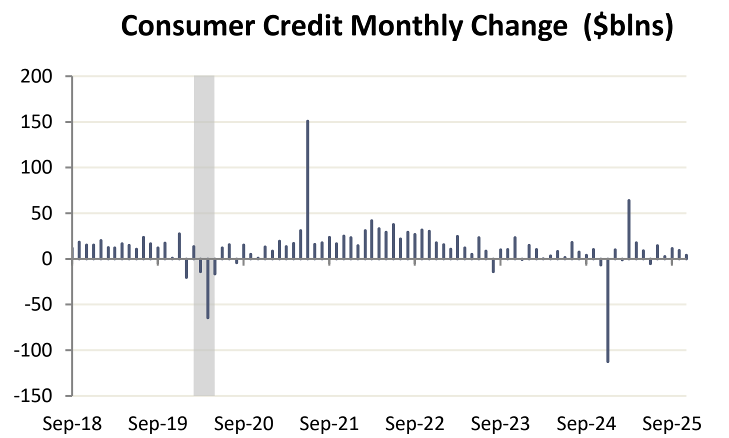
Sources: www.briefing.com and www.federalreserve.gov

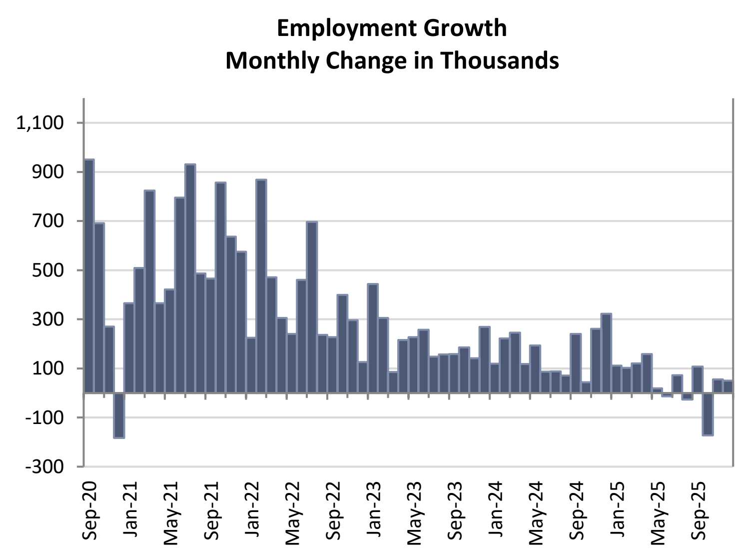
Economic Review

The December ISM MANUFCATURING INDEX slipped further in contraction territory, falling to 47.9% from 48.2% in November and marking the tenth consecutive month below the 50.0% threshold between expansionary and contractionary activity. The new orders index edged up slightly to 47.7%, and the employment index increased to 44.9% from 44.0% in November. The production index remained in expansionary territory but slipped further from 51.4% to 51.0% in December. The prices index for manufacturing remained steady at 58.5% in December. The ISM SERVICES PMI, unlike the manufacturing sector, moved further into expansionary activity in December, increasing from 52.6% to 54.4%, the strongest reading of 2025. The business activity and new orders indexes both increased further into expansionary territory, and the employment index rose from 48.9% to 52.0%, the first reading above 50.0% in six months.

Households remained relatively cautious in November, as CONSUMER CREDIT growth slowed, increasing only $4.2 billion, well under the expectations of a $10.3 billion increase. The headline increase masks a continued divergence between credit categories; revolving credit, which primarily reflects credit card borrowing, declined by $2.1 billion, while nonrevolving credit rose $6.3 billion and fully accounted for the net increase. On an annualized basis, total consumer credit grew at a subdued 1.0% pace, with revolving credit contracting at a 1.9% rate and nonrevolving credit expanding at a 2.0% rate. This divergence suggests consumers remain cautious about discretionary spending and short-term debt, while shifting priorities to long-term financing.

The December EMPLOYMENT REPORT indicated a mixed outlook for the labor market, with payrolls and the unemployment rate diverging. Nonfarm payrolls increased by 50,000, just below consensus expectations, but the two-month downward revision caused the three-month average for total nonfarm payrolls to fall from -3,000 to -22,000. Job growth remained concentrated in service-providing industries, particularly education & health services and leisure & hospitality, while employment losses were concentrated in goods-producing industries, with manufacturing payrolls falling 8,000. The unemployment rate edged down to 4.4% from 4.5% in November; however, long-term unemployment increased, rising to 26.0% of the unemployed compared to 24.4% in November.





Fed Speeches

In remarks to the California Bankers Association on January 7th, 2026, Vice Chair for Supervision Michelle W. Bowman outlined a sweeping effort to modernize the Federal Reserve's supervisory and regulatory framework, arguing that years of overly expansive, process-heavy oversight have weakened rather than strengthened the banking system.

Bowman framed her agenda as a shift toward pragmatic supervision that preserves safety and soundness while restoring efficiency, transparency, and proportionality across institutions of different sizes. She emphasized that effective oversight must focus on risks that genuinely threaten banks and the financial system, rather than expanding into subjective or peripheral areas that dilute supervisory judgment.

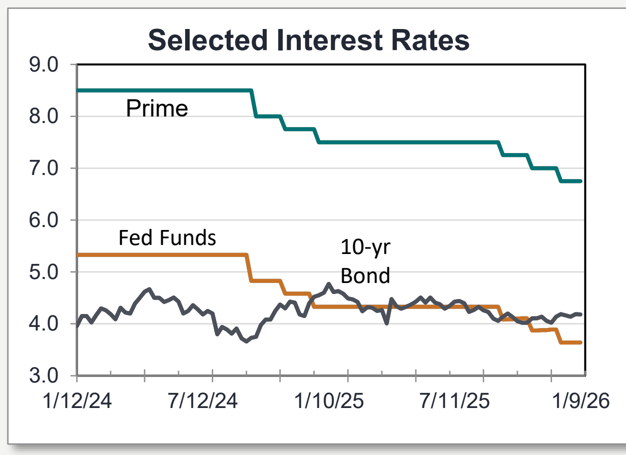
Bowman argued that, in the years following the financial crisis, regulation and supervision gradually evolved into a highly granular and procedural system that emphasized process compliance over risk prioritization. She said this approach diverted examiner attention away from core financial vulnerabilities, increased compliance burdens, and pushed activity out of the regulated banking sector into less supervised areas of the financial system. She summarized:

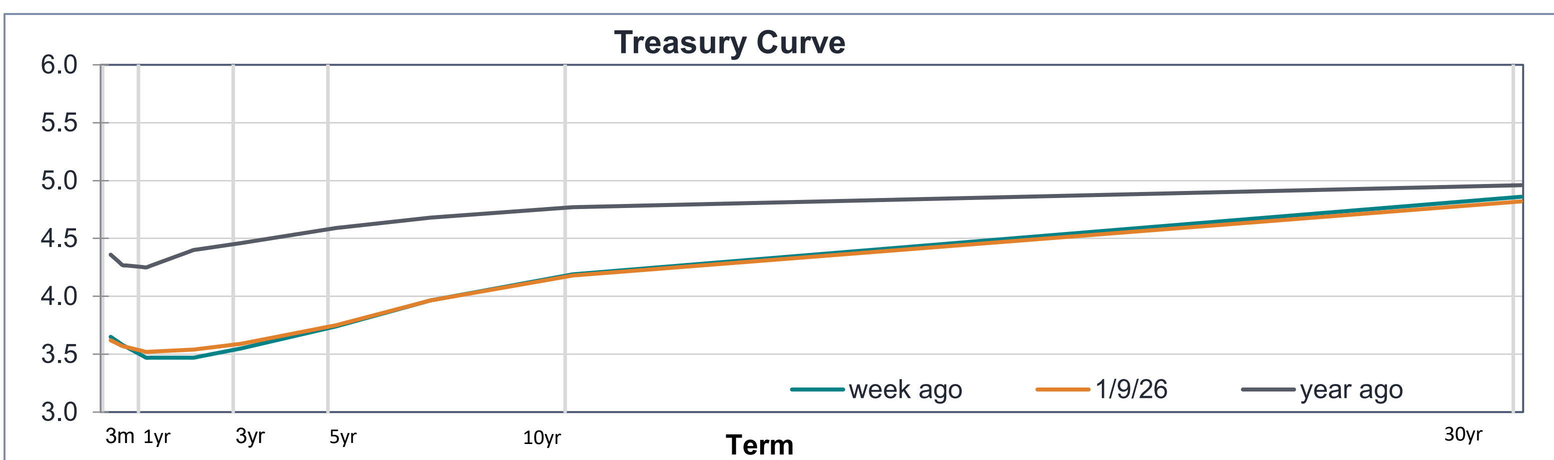
> "*An unfocused, process-heavy approach to regulation and supervision leaves banks less able to support economic activity… and ultimately makes the overall financial system less safe and stable.*"

Bowman outlined a path toward a more targeted and transparent supervisory regime, highlighting numerous reforms intended to modernize the system.

Financial Markets

All three major equity indices posted solid gains last week, with the DJIA increasing 2.3%, NASDAQ up 1.9%, and the S&P 500 increasing 1.6% as productivity gains increased appetites for risk. Treasury yields, however, were mixed. Short-term yields continued to decline, while intermediate yields rose, with the one- and two-year notes increasing 5 and 7 basis points, as the falling unemployment rate decreased bets of a January rate cut. Overall, markets are pricing in two rate cuts in 2026. Oil prices rebounded 3.2% while gold surged 4.2% as investors and traders assess the impacts of geopolitical uncertainty driven by recent U.S. military operations in Venezuela. Other commodities have also risen with CRB futures up 1.3% on the week. Most notably, copper prices have reached new highs as changes to global trade disrupt the copper supply.





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 01/09/26	As of 01/02/26	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)	3.64	3.87	(23)	(3)	(49)
Fed Funds (Wed close)	3.64	3.64	0	0	(46)
TREASURIES (BE) (Changes in BPs)					
3 Months	3.62	3.65	(3)	(1)	(40)
6 Months	3.57	3.58	(1)	(1)	(24)
1 Year	3.52	3.47	5	(2)	(8)
2 Years	3.54	3.47	7	2	2
5 Years	3.75	3.74	1	0	10
10 Years	4.18	4.19	(1)	(1)	13
30 Years	4.82	4.86	(4)	(3)	19
MUNICIPALS- AAA G.O. & Mortgage (Changes in BPs)					
2-Year Muni	2.30	2.43	(13)	(17)	(2)
5-Year Muni	2.27	2.38	(11)	(14)	(2)
10-Year Muni	2.61	2.72	(11)	20	(24)
30-Year Muni	4.14	4.19	(5)	(5)	(8)
30-Year Conventional Mortgage	6.16	6.15	1	(6)	(14)
MARKET INDICATORS (Changes in %)					
DJIA	49,504.07	48,382.39	2.3	2.2	8.8
S&P 500	6,966.28	6,858.47	1.6	2.0	6.3
NASDAQ	23,671.35	23,235.63	1.9	2.1	6.6
CRB Futures	378.22	373.39	1.3	1.3	3.9
Oil (WTI Crude)	59.12	57.31	3.2	1.0	(2.9)
Gold	4,509.50	4,328.71	4.2	4.2	12.4
Yen / Dollar	157.89	156.87	0.7	1.6	7.1
Dollar / Euro	1.16	1.17	(0.7)	(0.9)	0.1