Summary

Markets ended a volatile week mixed with the S&P 500 up 0.3% but both the DJIA and Nasdaq down 0.4% and 0.2% respectively. While the FOMC maintained rates as expected, the announcement of Kevin Warsh, who has become a prominent dovish voice despite his hawkish past, as the Fed Chair nominee pushed notes lower, with the 2-year note down 8 basis points. Warsh's nomination also alleviated fears of deteriorating Fed independence causing gold and silver to plummet. Durable goods orders surged 5.3% in November, far exceeding expectations, with orders excluding transportation increasing a solid 0.5%. That strength carried through to factory orders, which rose 2.7% in November. The January reading of the Chicago PMI supports the November data, with the index increasing to 54.0, drastically outperforming expectations of 43.0. December PPI increased much faster than expected at 0.5% month-over-month, while core PPI rose 0.6%, also well above consensus. The advance was primarily driven by services. Third quarter productivity remained robust at 4.9%, while unit labor costs fell 1.9%, suggesting efficiency gains continue to help absorb some inflationary pressure from wages. Despite this, consumer confidence fell sharply to 84.5 in January, well below expectations of 90.0, reflecting deterioration in both present conditions and expectations. The November trade deficit widened sharply to $56.8 billion, with a 5.0% increase in imports and a 3.6% decrease in exports, suggesting domestic and international consumers and firms are still adjusting to evolving trade dynamics.

Last Week: Indicator	Number Reported	Consensus Expectation*	Comment
Durable Orders (Nov – Mon 08:30)	+5.3%	+1.1%	
Durable Goods - ex transportation (Nov – Mon 08:30)	+0.5%	+0.3%	
Consumer Confidence (Jan – Tue 10:00)	84.5	90.0	
MBA Mortgage Applications Index (01/24 – Wed 07:00)	-8.5%	NA	
FOMC Decision (Jan – Wed 14:00)	3.50-3.75%	3.50-3.75%	
Trade Balance (Nov – Thu 08:30)	-$56.8B	-$43.5B	
Initial Claims (01/24 – Thu 08:30)	209K	205K	
Continuing Claims (01/17 – Thu 08:30)	1,827K	NA	
Productivity - Revised (Q3 – Thu 08:30)	+4.9%	+4.9%	
Unit Labor Costs - Revised (Q3 – Thu 08:30)	-1.9%	-1.9%	
Factory Orders (Nov – Thu 10:00)	+2.7%	+0.5%	
Wholesale Inventories (Nov – Thu 10:00)	+0.2%	+0.1%	
PPI (Dec – Fri 08:30)	+0.5%	+0.2%	
Core PPI (Dec – Fri 08:30)	+0.6%	+0.3%	
Chicago PMI (Jan – Fri 09:45)	54.0	43.0	

Next Week: Indicator	Consensus Expectation*	Prior	Comment
ISM Manufacturing Index (Jan – Mon 10:00)	48.3%	47.9%	
JOLTS - Job Openings (Dec – Tue 10:00)	NA	7.146M	
MBA Mortgage Applications Index (01/31 – Wed 07:00)	NA	-8.5%	
ADP Employment Change (Jan – Wed 08:15)	43K	41K	
ISM Non-Manufacturing Index (Jan – Wed 10:00)	53.7%	54.4%	
Initial Claims (01/31 – Thu 08:30)	210K	209K	
Continuing Claims (01/24 – Thu 08:30)	NA	1827K	
Nonfarm Payrolls (Jan – Fri 08:30)	68K	50K	
Nonfarm Private Payrolls (Jan – Fri 08:30)	60K	37K	
Unemployment Rate (Jan – Fri 08:30)	4.4%	4.4%	
Average Hourly Earnings (Jan – Fri 08:30)	0.3%	0.3%	
Average Workweek (Jan – Fri 08:30)	34.2	34.2	
U. of Michigan Consumer Sentiment - Prelim (Feb – Fri 10:00)	54.3	56.4	
Consumer Credit (Dec – Fri 15:00)	$8.4B	$4.2B	

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

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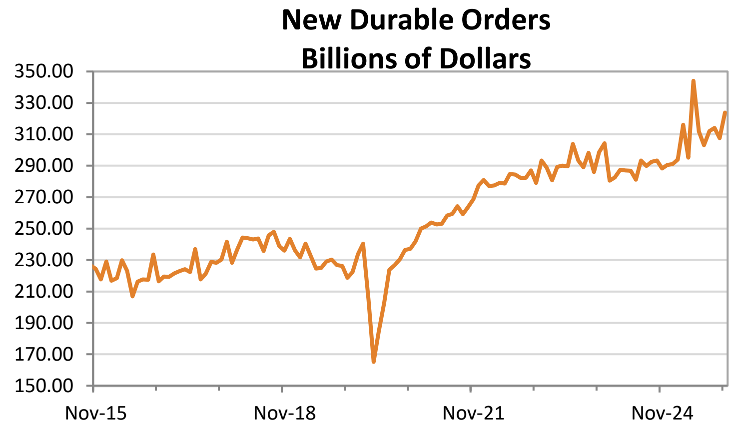
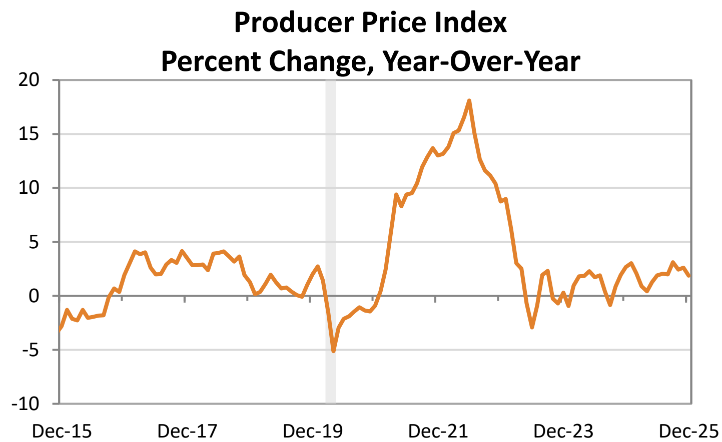
Economic Review

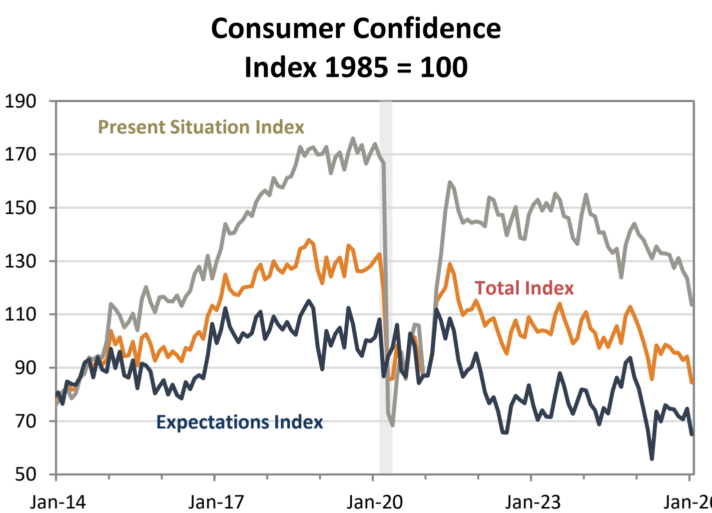
DURABLE GOODS ORDERS rebounded sharply in November, increasing 5.3% month-over-month, well above the expected 1.1% gain, following an upwardly revised 2.1% decline in October. The headline strength was driven primarily by transportation equipment orders, which surged 14.7%. Orders excluding transportation rose a solid 0.5%, exceeding consensus expectations. Within core categories, machinery orders increased 0.5%, fabricated metal products rose 1.0%, and computers and electronic equipment advanced 0.2%. Nondefense capital goods orders excluding aircraft, a key proxy for business investment, rose 0.7%.

The PRODUCER PRICE INDEX increased faster than expected in December at 0.5% month-over-month, following a 0.2% increase in November. The PPI for final demand services was up 0.7% in December, the largest increase since July. The index for final demand goods was flat month-over-month, indicating the headline increase can be attributed primarily to inflation in the services sector. Within services, trade services prices jumped 1.7%, responsible for roughly two-thirds of the overall increase and reflecting rising input prices for wholesalers and retailers. Core PPI, which excludes food and energy, jumped 0.6% on the month, also well above consensus (0.3%). On a year-over-year basis, headline PPI held at 3.0%, while core PPI moved up to 3.2% from 3.0%, reinforcing the persistence of upstream inflation pressures.

Consumers became decidedly more cautious in January, as expectations for future and current economic conditions collapsed; CONSUMER CONFIDENCE deteriorated sharply, falling 9.7 points to 84.5, its lowest reading since May 2014. The index now stands far below its level of 105.3 a year ago and at its lowest reading since May 2014. The present situation index dropped to 113.7 from 123.6, reflecting weaker assessments of current business and labor market conditions. The expectations index plunged to 65.1 from 74.6, marking the twelfth consecutive month below the 80 threshold that typically signals recession risk. Inflation concerns remained elevated. with write-in responses continuing to highlight prices, particularly food, energy, and gasoline, as key sources of strain. References to tariffs, trade, politics, and labor market conditions also increased, underscoring rising anxiety around policy and economic uncertainty.







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Fed Speeches

At the most recent meeting of the Federal Open Market Committee, policymakers held the federal funds target range steady at 3.50% to 3.75%. Following the meeting, Governor Christopher J. Waller explained his dissent in favor of a 25 basis point rate cut, arguing that monetary policy remains too restrictive given the current balance of economic risks. While acknowledging that policy has moved closer to neutral after three cuts last year, Waller emphasized that incoming data point to a material slowdown in labor market conditions that warrants further easing. He notes,

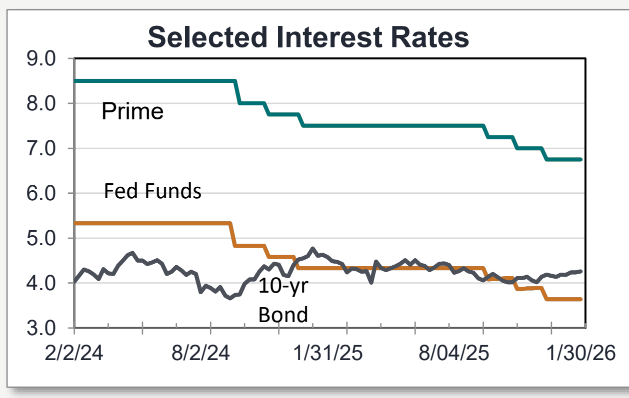
> *"[I]n contrast to the continued solid growth in economic activity, the labor market remains weak."*

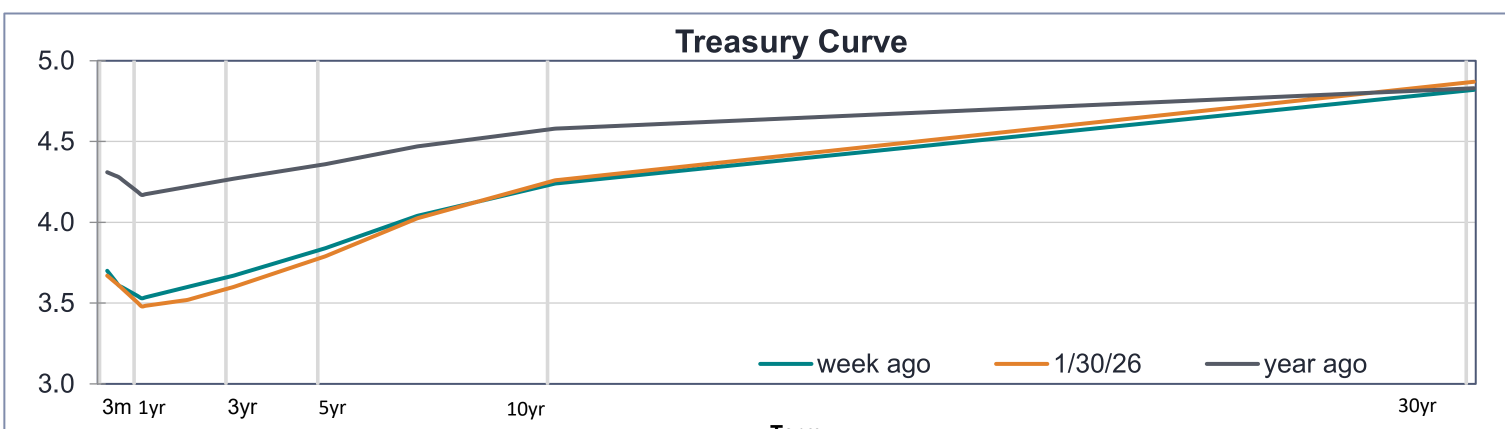
Waller's assessment focused squarely on the labor market, which he described as significantly weaker than headline indicators might suggest. He noted that payroll growth in 2025 was dramatically below historical norms and is likely to be revised lower, potentially showing no net job creation over the year. In his view, this combination of subdued hiring and rising unemployment does not reflect a healthy labor market, particularly when measured against pre-2025 trends. Waller added that while firms have so far been reluctant to lay off workers, they are equally reluctant to hire, and outreach has revealed plans for layoffs later this year, increasing the risk of a sharper deterioration in employment conditions.

On inflation, Waller argued that policy should look past tariff-related price pressures so long as inflation expectations remain anchored. With inflation largely under control and labor market risks skewed to the downside, Waller concluded that the policy rate should move closer to neutral.

Financial Markets

Equities were mixed last week; the DJIA declined 0.4% and the NASDAQ declined 0.2%, while the S&P 500 rose 0.3%. Despite recently softness, all three major indices remain higher than their value a month ago, although the NASDAQ has now declined 1.1% from its value 13 weeks ago. Short and intermediate Treasury yields declined last week, with the three-month bill declining 3 basis points, the one- and five-year notes declining 5 b.p., and the two-year note seeing the most significant decline of 8 b.p., indicating that investors likely expect that near-term policy rates have risen following the announcement of Kevin Warsh as Fed Chair nominee. In contrast, longer-term yields moved modestly higher, with the ten-year and thirty-year yields rising two and five basis points, respectively. Oil prices surged 6.4% last week as geopolitical tensions continue to ripple through the markets. Gold and silver prices both plummeted as the nomination of Kevin Warsh alleviated fears that the Fed will be swayed by political pressures in 2026.





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Interest Rate Forecast*

During the Fed's January policy meeting, the Federal Open Market Committee (FOMC) maintained the federal funds target rate at 3.50% to 3.75%. In the statement released following the meeting, the FOMC stated, "In support of its goals, the Committee decided to maintain the target range for the federal funds rate at 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	3.66	3.60	3.53	4.14	4.82	6.10
2nd Qtr	6.58	3.46	3.49	3.49	3.48	3.97	4.63	5.98
3rd Qtr	6.50	3.38	3.40	3.44	3.48	3.90	4.45	5.93
4th Qtr	6.25	3.13	3.15	3.22	3.31	3.79	4.27	5.79
1st Qtr '27	6.08	2.96	2.98	3.06	3.19	3.72	4.20	5.70

February 2026

FINANCIAL MARKET SUMMARY

	As of 01/30/26	As of 01/23/26	Weekly Change	4-Week Change	13-Week Change
MONEY MARKETS (Changes in BPs)					
Prime	6.75	6.75	0	0	(25)
Secured Overnight Financing Rate (SOFR)	3.65	3.64	1	(22)	(39)
Fed Funds (Wed close)	3.64	3.64	0	0	(23)
TREASURIES (BE) (Changes in BPs)					
3 Months	3.67	3.70	(3)	2	(22)
6 Months	3.61	3.61	0	3	(18)
1 Year	3.48	3.53	(5)	1	(22)
2 Years	3.52	3.60	(8)	5	(8)
5 Years	3.79	3.84	(5)	5	8
10 Years	4.26	4.24	2	7	15
30 Years	4.87	4.82	5	1	20
MUNICIPALS- AAA G.O. & Mortgage (Changes in BPs)					
2-Year Muni	2.22	2.24	(2)	(21)	(27)
5-Year Muni	2.24	2.27	(3)	(14)	(16)
10-Year Muni	2.62	2.65	(3)	24	(11)
30-Year Muni	4.21	4.22	(1)	2	9
30-Year Conventional Mortgage	6.10	6.09	1	(5)	(7)
MARKET INDICATORS (Changes in %)					
DJIA	48,892.47	49,098.71	(0.4)	1.1	2.8
S&P 500	6,939.03	6,915.61	0.3	1.2	1.4
NASDAQ	23,461.82	23,501.24	(0.2)	1.0	(1.1)
CRB Futures	402.43	392.28	2.6	7.8	6.8
Oil (WTI Crude)	65.21	61.31	6.4	14.9	6.2
Gold	4,894.23	4,987.49	(1.9)	13.1	22.2
Yen / Dollar	154.78	155.70	(0.6)	(1.1)	1.3
Dollar / Euro	1.19	1.18	0.2	1.1	2.7

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