Financial Markets This Week

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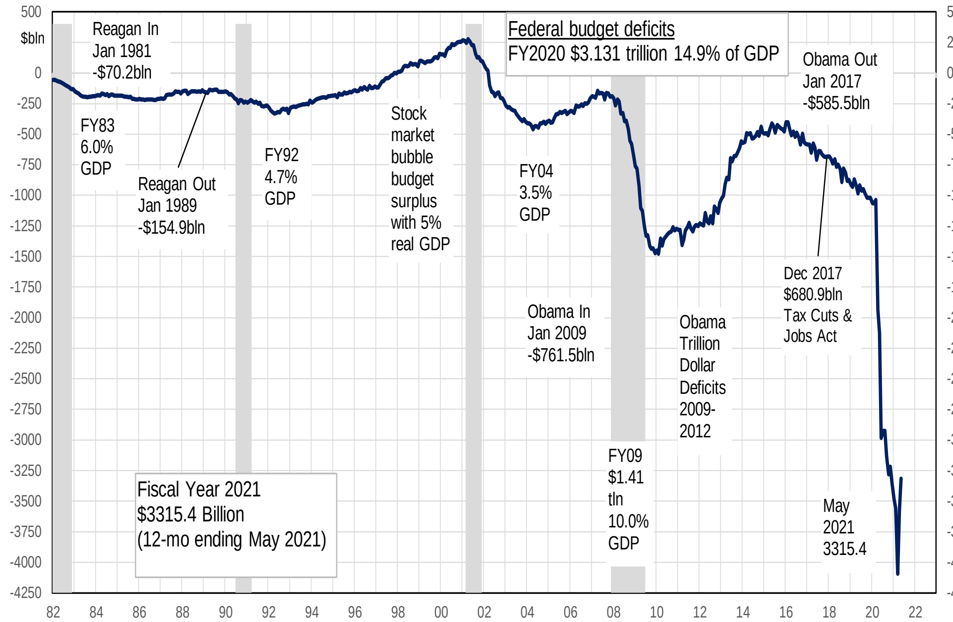
BIDEN 2022 BUDGET AND MAY 2021 RESULTS



The bond market isn't trading as much on the Federal budget deficit news or perhaps it is. Fewer Treasury auctions are coming in the 2022 fiscal year (FY) starting October. And bond yields have stopped rising. Biden announced the 2022 budget on Friday, May 28 at 2pm ET. Before he got here the deficit was $3.1 trillion in FY2020, $3.7 trillion in FY2021, and he is proposing $1.8 trillion in FY2022. The bond market didn't give a sigh of relief that deficit spending was coming back down, it was more focused on the $6.0 trillion of Federal budget outlays or spending which sounded like it was way too much. And just a thought on Fed policy here: if the deficit is down sharply starting in October, can the Fed go ahead and taper its monthly $80 billion QE purchases of Treasuries ($960 billion per year) because private and foreign investors can buy all our new debt on their own, and secondly, if the Fed does taper should we keep buying stocks?

There are two Biden plans awaiting passage. The $2.3 trillion American Jobs Plan (may be cut to $1.7 trillion), and the $1.8 trillion American Families Plan. The table here is the baseline budget projections that reflect the Administration's economic assumptions mixing in the effects of the Administration's fiscal policies. Basically, the baseline isn't all that much different than the actual budget proposed.

Biden's First Budget

2020-21 actual	2020	2021	2022	2023	2024	2025	2026	2027	2028
Budget deficit	3,129	3,669	1,837	1,372	1,359	1,470	1,414	1,303	1,424
Baseline deficit	3,129	3,670	1,719	1,148	1,068	1,176	1,115	1,134	1,348
American Jobs Plan			84	92	141	152	177	110	28
(includes Road and Bridge Repair)			5.124	13.385	17.416	19.650	21.626	16.958	7.895
American Families Plan			16	79	88	78	53	-9	-17

Trillion dollar spending numbers are being thrown around but the spending of the American Jobs Plan in FY 2022 is $84 billion which includes $5.124 for road and bridge repair, and the spending of the American Families Plan in FY 2022 is just $16 billion. The spending proposals are obviously cumulative and yet neither plan may be voted through by a fractured Congress.

We think it was Treasury Secretary Yellen who first urged Congress to go-big. The recession is over now except for the left-behind, millions of unemployed; “over” is always a technical definition as recession ends when industrial production hits bottom and it bottomed way back in April 2020… fastest recession in history. The most effective go-big Federal stimulus spending we can see is the additional $600 and then $300 weekly add-on unemployment insurance checks and the Economic Impact Payments which included $600 and then $1400 checks all hitting consumers’ bank accounts in Q1 2021. That money is gone and it cannot be good for the economic growth outlook. The Biden budget’s economic estimates are conservative or at least we no longer get the 3.0% real GDP forever forecasts from the last Administration.

Selected Pandemic Fiscal Stimulus

	2020									2020	2021				
$Billions	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May
Unemployment compensation	4.165	48.128	93.861	115.619	109.487	55.264	58.713	33.566	25.892	27.703	33.812	43.977	49.080	37.488	35.007
State	4.165	21.220	29.676	35.212	36.103	31.178	26.288	23.041	22.083	24.669	18.619	21.322	23.441	17.477	16.437
Federal additional	--	26.908	64.185	80.407	73.384	22.473	7.664	3.242	2.642	2.236	15.002	22.516	25.200	19.944	18.523
FEMA Lost Wages	--	--	--	--	--	1.973	24.761	7.283	1.167	0.798	0.191	0.139	0.439	0.067	0.047
Economic Impact Payments		217.000	51.000	3.000	3.000	0.757	0.405	--	--	--	139.000	8.000	339.000	58.000	11.000
Food Stamps	5.273	7.094	8.551	10.639	10.229	9.271	8.685	8.991	9.107	8.986	8.43	9.105	10.932	10.642	11.463

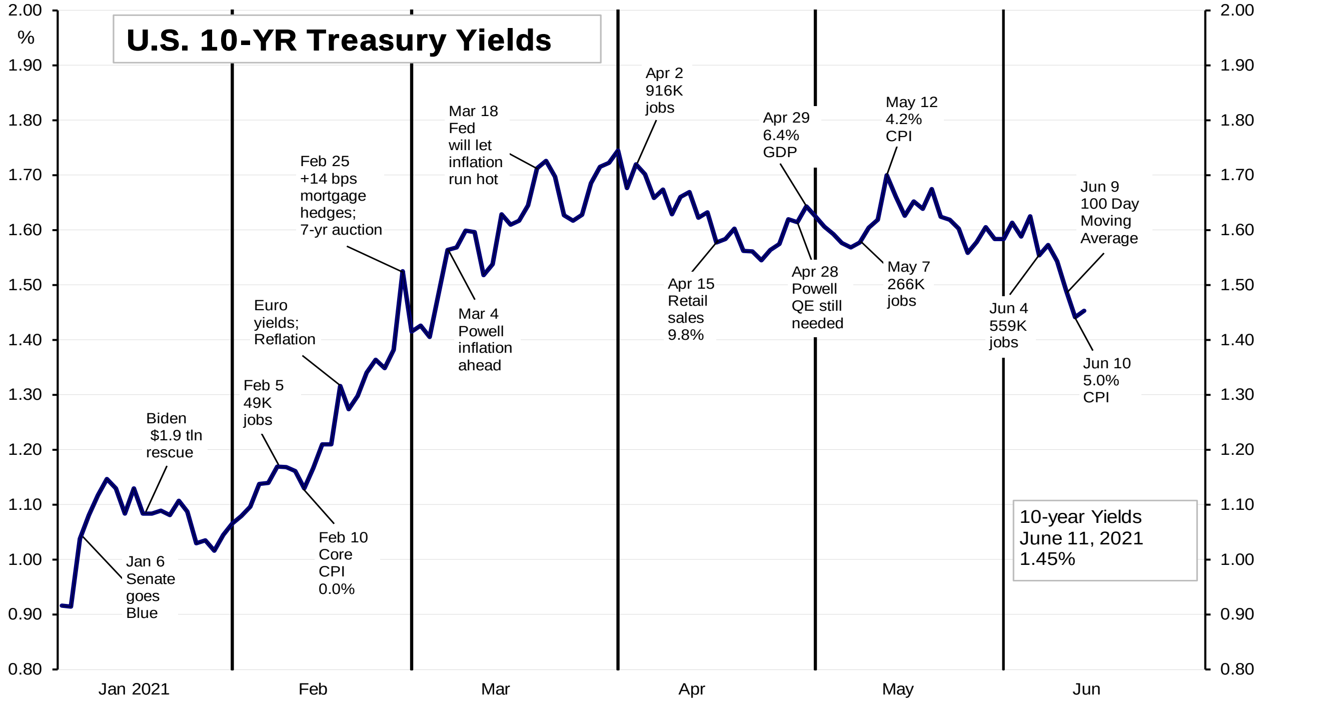
Federal government stimulus is starting to fade. The Economic Impact Payments’ $1,400 checks added $339 billion to the economy in March and $58 billion in April, keeping in mind total retail sales were $619.9 billion in April. Never seen government spending at this go-big of a level in history. The payroll tax cut from 6.2% to 4.2% in 2011 and 2012 only added about $120 billion each year and the effect was spread evenly over the entire year. Unemployment compensation is adding back less to the economy with benefits down to $35 billion in May as the unemployment rate continues to fall.

To review and conclude, fiscal stimulus measures are less needed as the economy reopens and leaves the recession further behind in the rearview mirror. On a 12-month trailing basis, the Federal budget deficit is running $3.315 trillion in May. The recession is over, but the Obama 2009-2012 trillion dollar deficits are back for as far as the eye can see.

Biden Budget Economic Assumptions and Forecasts

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Net interest $bln		345	303	305	320	368	445	524	603	674	744	829
91-day T-bills	2.1	0.4	0.1	0.2	0.4	0.8	1.2	1.5	1.6	1.7	1.8	2.1
10-yr Govts	2.1	0.9	1.2	1.4	1.7	2.1	2.4	2.6	2.7	2.8	2.8	2.8
Deficit $bln		3,129	3,669	1,837	1,372	1,359	1,470	1,414	1,303	1,424	1,307	1,477
Deficit %GDP		14.9	16.7	7.8	5.6	5.3	5.5	5.1	4.6	4.8	4.2	4.6
Public debt %GDP		128.1	137.2	138.1	138.5	139.4	140.3	140.5	139.5	138.4	137.0	135.7
Real GDP Q4/Q4	2.3	-2.5	5.2	3.2	2.0	1.8	1.8	1.8	1.8	1.9	1.9	2.0
Unemployment	3.7	8.1	5.5	4.1	3.8	3.8	3.8	3.8	3.8	3.8	3.8	3.8
CPI	1.8	1.2	2.1	2.1	2.2	2.2	2.3	2.3	2.3	2.3	2.3	2.3

INTEREST RATES

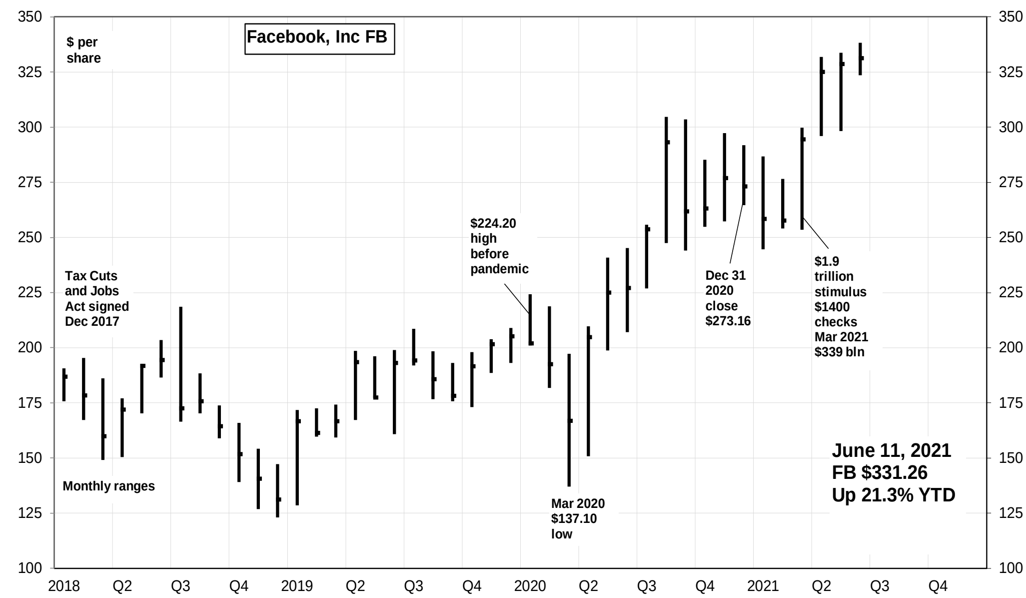


10-year yields closed below 1.50% and the 100-day moving average Wednesday before Thursday's CPI report, so the market was looking past it. It wasn't immediately sell the rumor buy the fact on the CPI report with core inflation in May rising 0.7% for the month instead of the 0.5% expectation. Bond yields were 1.490% Wednesday at the close, rose to 1.533% on CPI, but then closed at 1.441%. We are past the peak in GDP growth and inflation we guess is the thinking. At least, the rare core CPI declines in April and May 2020 during the pandemic are out of the year-year inflation now.

Facebook, Inc. FB, up 21.3% YTD

Facebook reported March quarter earnings on April 28. Most of the company's revenues are advertising always (97% in Q1), and total revenues of $26.171 billion were up 48% from last year's first quarter. Income from operations is up 93% to $11.378 billion. March daily active users averaged 1.88 billion. The company said it was facing headwinds including the iOS 14.5 update to iPhones where users can turn off Facebook's ability to track their behavior. FB said this is "manageable."

S&P 500 Weights	
Top 6: 22% of S&P	
5.52	AAPL
5.28	MSFT
3.87	AMZN
2.22	FB
1.35	TSLA
1.99	GOOGL
1.95	GOOG
22.18	Top 6



FEDERAL RESERVE POLICY

The Fed meets June 15-16, 2021 to consider its monetary policy. That's next week, so Fed officials were quiet this week. Here are the tables of the FOMC forecasts from the March 2021 meeting that will be updated. The market only wants to hear about when they will start talking about when to talk about halting the monthly $120 billion of QE stimulus.

Selected Fed assets and liabilities					March 11
Fed H.4.1 statistical release					2020**
billions, Wednesday data	9-Jun	2-Jun	26-May	19-May	pre-Covid
Factors adding reserves					
U.S. Treasury securities	5129.891	5119.023	5087.157	5071.821	2523.031
Federal agency debt securities	2.347	2.347	2.347	2.347	2.347
Mortgage-backed securities (MBS)	2244.270	2244.270	2244.265	2277.561	1371.846
Repurchase agreements	0.000	0.000	0.000	0.000	242.375
Primary credit (Discount Window)	0.502	0.578	0.633	0.661	0.011
MMLF	0.000	0.000	0.000	0.000	
PDCF	0.000	0.000	0.000	0.000	
Commerical Paper Funding Facility	8.554	8.554	8.554	8.554	
Paycheck Protection Facility	87.069	84.389	84.258	82.635	
Corporate Credit Facility (CCF)	25.896	25.963	26.037	25.966	
Municipal Liquidity Facility	10.734	10.882	10.879	11.127	
Main Street Lending Program	30.576	30.567	30.559	30.550	
Term Asset-Backed Facility (TALF II)	4.762	4.761	4.923	4.922	
Central bank liquidity swaps	0.516	0.513	0.678	0.652	0.058
Federal Reserve Assets	8001.6	7984.3	7952.7	7972.1	4360.0
3-month Libor %	0.12	0.13	0.14	0.15	0.77
Factors draining reserves					
Currency in circulation	2180.167	2179.122	2172.925	2169.173	1818.957
Term Deposit Facility	0.000	0.000	0.000	0.000	0.000
U.S. Treasury Account at Fed	673.555	812.087	778.912	860.833	372.337
Treasury credit facilities contribution	50.278	50.278	50.278	50.278	
Reverse repurchases w/others	502.904	438.778	450.283	293.998	1.325
Reserve Balances (Net Liquidity)	3916.725	3848.262	3851.623	3823.979	1779.990
Treasuries within 15 days	50.731	62.321	88.013	95.705	21.427
Treasuries 16 to 90 days	327.810	316.521	303.665	300.258	221.961
Treasuries 91 days to 1 year	643.991	643.631	647.962	643.626	378.403
Treasuries over 1-yr to 5 years	1978.648	1976.806	1937.380	1933.283	915.101
Treasuries over 5-yrs to 10 years	933.934	928.755	926.562	918.938	327.906
Treasuries over 10-years	1194.777	1190.991	1183.576	1180.011	658.232

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

MMLF: Money Market Mutual Fund Liquidity Facility: loans secured by assets bought by banks from money market funds
PDCF: Primary Dealer Credit Facility: o/n and term funding with maturities to 90 days
CCF: Corporate credit facility: Primary market (PMCCF) and Secondary Market (SMCCF)

Core CPI has jumped two straight months now from 1.6% year-year in March to 3.8% year-year in May and the graph really hits you with the magnitude of how much inflation there is. When Bernanke once said the Fed could ignore a one-off jump in prices, we think he didn't have a move with the magnitude we have seen this year in mind. One would think it is a difficult chart for Fed officials to ignore. It would be one thing, if the decision would be to slow the economy with higher interest rates, but the only decision looming over next week's meeting is whether to stop pushing free money out to the economy. The Fed's QE stimulus remains full on at $120 billion per month where it is $80 billion Treasury purchases and $40 billion MBS purchases. Under Bernanke starting in January 2013 it was $85 billion monthly with $45 billion Treasuries and $40 billion MBS. The Bernanke QE only lasted a year before tapering. We believe the improvement in the labor market since December 2020 has been sufficient to start tapering. There's certainly enough inflation, and the improvement shown by the unemployment rate dropping from 6.7% in December 2020 to 5.8% in May 2021 actually understates the improvement when you take a look at the job openings in this week's economic data analysis. One interesting idea is for the Fed to wind down the MBS purchases first as the purchases keep being cited as a cause of the housing price bubble.

Fed Individual Forecasts				
Fed funds rate at year-end				Longer
Votes	2021 End	2022 End	2023 End	run
1	0.125	0.125	0.125	2.000
2	0.125	0.125	0.125	2.250
3	0.125	0.125	0.125	2.250
4	0.125	0.125	0.125	2.250
5	0.125	0.125	0.125	2.250
6	0.125	0.125	0.125	2.375
7	0.125	0.125	0.125	2.500
8	0.125	0.125	0.125	2.500
9	0.125	0.125	0.125	2.500
10	0.125	0.125	0.125	2.500
11	0.125	0.125	0.125	2.500
12	0.125	0.125	0.375	2.500
13	0.125	0.125	0.625	2.500
14	0.125	0.125	0.875	2.500
15	0.125	0.375	0.875	2.750
16	0.125	0.375	0.875	3.000
17	0.125	0.375	1.125	3.000
18	0.125	0.625	1.125	
Median	0.125	0.125	0.125	2.500
Meeting	Mar 21	Mar 21	Mar 21	Mar 21

Fed Policy-key variables				Long	Long
	2021	2022	2023	Term	Term
Fed funds	0.1	0.1	0.1	2.5	2.5
PCE inflation	2.4	2.0	2.1	2.0	2.0
Unemployed	4.5	3.9	3.5	4.0	4.1
GDP	6.5	3.3	2.2	1.8	1.8
March 2021 median Fed forecasts					

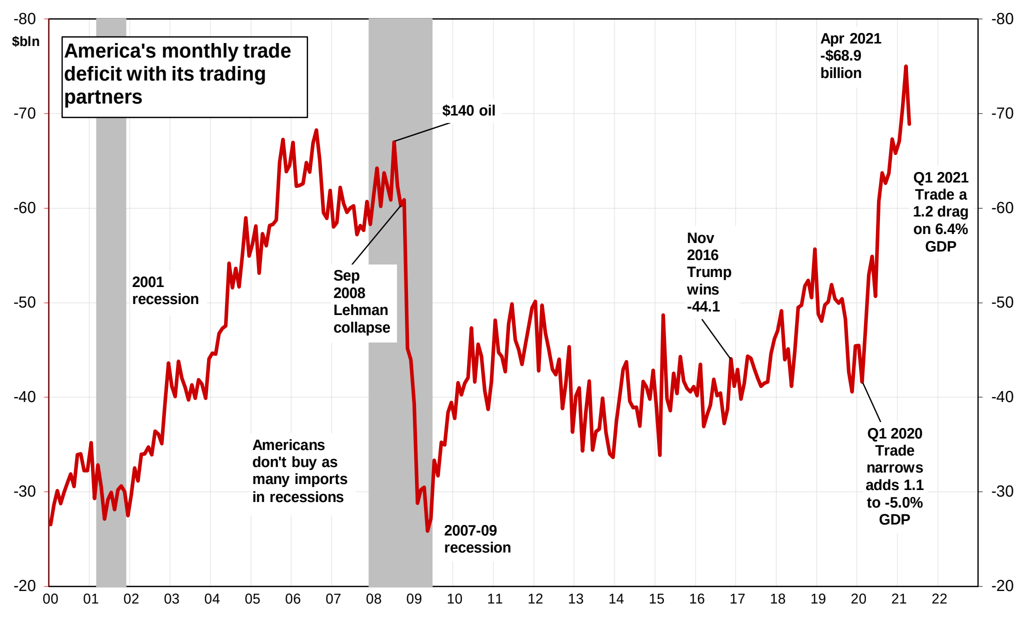
OTHER ECONOMIC NEWS

The prevailing trade winds were more favorable in April as imports finally declined (Tuesday)

Breaking economy news. The trade balance, exports, and imports for April. The ever-widening trade deficit trend to new record highs took a month off with the deficit falling to $68.9 billion in April from $75.0 billion in March. Exports of goods have fully recovered from the pandemic decline, while exports of services continue to lag after big drops in March and April last year. Imports of goods fell in April after a huge jump in March and are likely to grow further in the months ahead as the country continues to heal and reopen following the pandemic shutdowns in 2020.

The trade deficit red ink was less this one month, but U.S. manufacturers still don't see light at the end of the tunnel when it comes to demand from big global trading partners like Europe. April U.S. exports of goods to the European Union rose 1.9% to $22.5 billion, but are still well off the record exports of $30.6 billion seen in March 2019.

China imports of goods fell $2.6 billion and there were reports of bottlenecks and possible COVID-based slowdowns at ports that may affect the trade data for a couple more months. Prices of imports and exports are starting to affect the total flows where the price of raw materials is soaring as panicky companies over-bid to secure an ample supply. Nonfuel import prices in the U.S. are running 5.0% higher in April than they were a year earlier which makes a big difference on the monthly trade numbers when the U.S. total goods imports were over $2.3 trillion in 2020. Looking ahead, the prevailing trade winds favor a further widening of America's trade deficit with the world as consumers are the richest they have been following any recession in history. American consumers and businesses still cannot buy American as the factory offshoring trend of the prior two decades remains in place despite the talk of Washington officials.



Net, net, America's trade deficit with the world moved back down this month from last month's record as exports jumped and imports fell. However, we see no change in the prevailing trend of trade where the stronger U.S. economy is sucking in more goods demanded by consumers and businesses, while America's trading partners are finding it harder to restart their economic growth following the pandemic. The balance of trade and higher deficits subtracted 1.2 percentage points from Q1 2021's 6.5% real GDP growth. America's decades-long reliance on foreign-made goods will continue to be a drag on growth ahead regardless of whether or not politicians are able to coax a few more factories back to the USA.

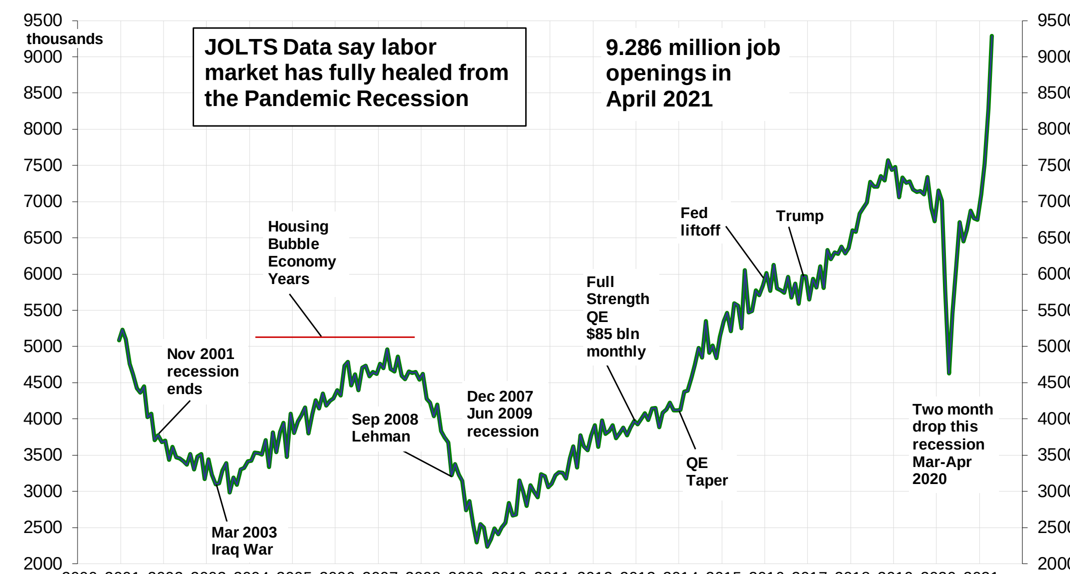
Jobs galore if you can drag yourself in to work (Tuesday)

Breaking economy news. Job Openings and Labor Turnover Survey the JOLTS data. Job openings continue to set records at 9.286 million at the end of April. March was 8.123 million and that was revised up to 8.288 million in today's report. The big upward revision tells us there are so many jobs out there in the country right now that the Bureau of Labor Statistics is having trouble counting them. 9.286 million jobs for hire at the end of April and maybe some of those were taken already as the number of unemployed behind the three-tenths drop in the unemployment rate to 5.8% in May fell to 9.316 million in May from 9.812 million in April.

Today's news means a few more states will drop the weekly $300 additional unemployment check sweeteners for those out of work. The program was going to end September 6 anyway, so as time goes on, the unemployed are going to have to go back to work assuming they were waiting. If you are out of work, you are in luck as there have never been so many openings in recorded history. The biggest jump in openings is in hotels and restaurants where 1.338 million workers are needed right now up from 989 thousand in March.

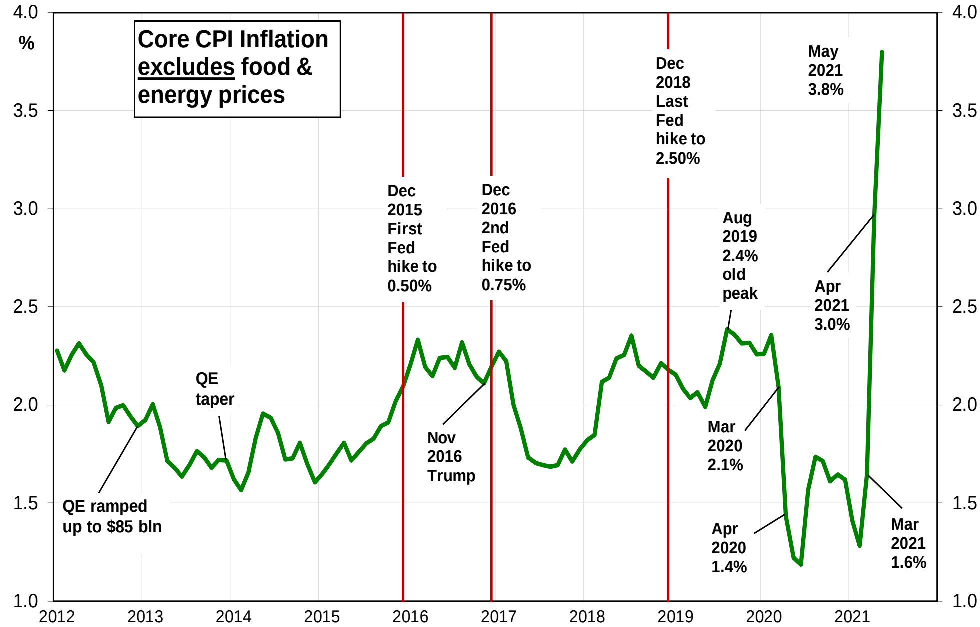
Net, net, job openings are soaring in a sign that the economy is not just reopening, it is roaring and ready to go if only companies could find the help they need to produce the goods and services for their customers. This is the fastest economic recovery in history in terms of consumer spending and business investment and now it looks like the labor market may be further down the road to full recovery than Washington thought. It couldn't be more ironic to have Congress and the White House fighting over the passage of Biden's $2.3 trillion American Jobs Plan while the job openings have never been higher in recorded history. It looks like Washington's throwing more money at the economy is trying to help where help is simply not needed. There are jobs out there: 9.286 million of them.

One thing is for certain and that is the Fed can take its foot off the gas because if they are trying to create new jobs in the economy the record high in new job openings is telling them they have done enough to support the recovery. They have the wrong model and can scrap their monetary policy reaction function.



Waiting for full employment indeed. All the money printing is doing is setting off asset-price inflation like in the stock market and in home prices. There are jobs galore and the labor market is tighter than a drum if the Jolts data are to be believed. Don't wait for Congress to pass the American Jobs Plan, go get your new job today, it's there waiting for you. Bet on it.

Inflation isn't normal (Thursday)



Breaking economy news. CPI inflation, waited long enough for it, and it's worse than the world thought. May CPI headline inflation rose 0.6% and 5.0% year-year. May core CPI inflation rose 0.7% and 3.8% year-year. 0.3 of the 0.7% monthly jump in core CPI was used cars and trucks prices, which after rising 29.7% over the last year are due for a correction or fewer buyers or something. Services prices less energy services are up 2.9% the last year, and are probably the best measure of underlying inflation pressures and these prices have gone up at a faster pace in March, April, and May with the economy's reopening.

Core CPI inflation fell last April and May, deflation during the pandemic recession, so the year-to-year change in prices moves up as the declines drop out of the calculation. But it is more than that. And it's not just disruptions and backlogs at ports from China to the West Coast, or supply shortages from panicked companies stocking up and over-ordering components and parts. Prices are going up everywhere because companies feel they can get away with it and the market will pay.

Net, net, inflation is soaring as the economy opens back up and jobs are plentiful. You would think the economy had already recovered and reached full employment the way the inflation fires are burning and the job layoffs are tumbling. Inflation is heating up as the labor markets tighten up and with commodities and parts in short supply this inflation spike could persist for longer than Federal Reserve officials believe. The inflation data today are red hot and this makes it a virtual certainty that the Federal Reserve is going to talk about throttling back the biggest QE stimulus program in its history. The recession and deflation threat ended a year ago and a strong economy and shortage of labor and commodity inputs is just the recipe for higher inflation in the future. The Fed is making a big mistake if they think they can look the other way with the price of goods and services jumping. This inflation looks as permanent as it is dangerous because higher prices have the ability to curb consumer purchases and shut the economy's spending right back down in a hurry. Inflation isn't normal, it's way past that now, it is quickly spreading beyond the Fed's control. Sell bonds.

		Monthly Percent Changes			YOY %
Weight	CPI inflation	Mar 2021	Apr 2021	May 2021	May 2021
100.0	Total	0.6	0.8	0.6	5.0
13.9	Food	0.1	0.4	0.4	2.2
7.6	Food at home	0.1	0.4	0.4	0.7
6.9	Energy	5.0	-0.1	0.0	28.5
79.1	Ex-food & energy	0.3	0.9	0.7	3.8
3.6	New vehicles	0.0	0.5	1.6	3.3
3.0	Used cars/trucks	0.5	10.0	7.3	29.7
2.7	Clothing	-0.3	0.3	1.2	5.6
1.5	Medical care goods	0.1	0.6	0.0	-1.9
32.8	Shelter	0.3	0.4	0.3	2.2
5.2	Transportation	1.8	2.9	1.5	11.2
7.2	Medical care services	0.1	0.0	-0.1	1.5

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