Financial Markets This Week

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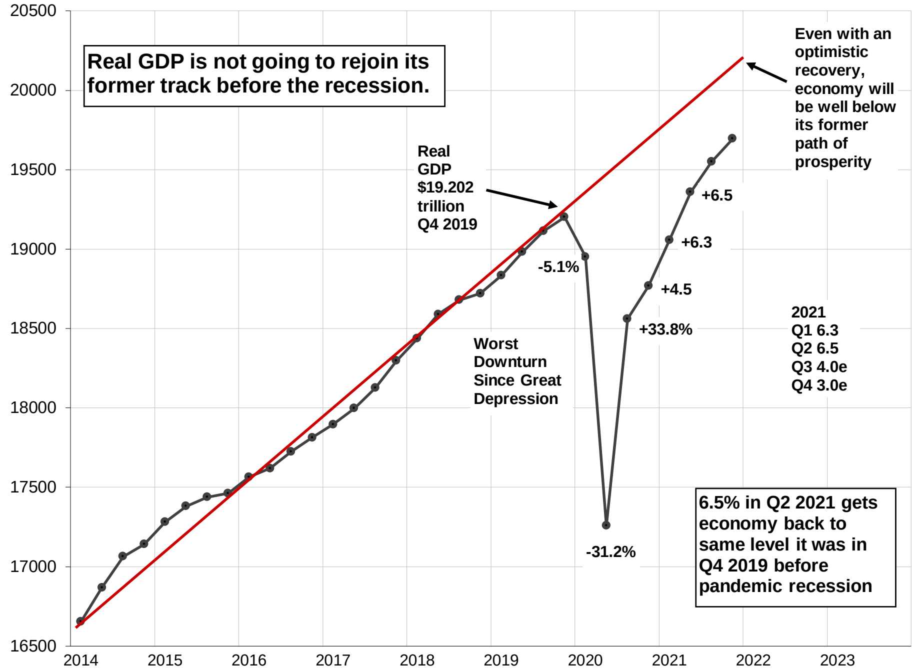
ECONOMIC DOWNTURN IS OVER WITH GDP AT RECORD HIGH



Breaking economy news. Flash. The economic downturn is officially over with real GDP jumping to a new all-time high. The deepest economic contraction since the Great Depression is history. Last month's report had Q1 2021 real GDP still 0.9% lower than it was during the best economy of fifty years peak in Q4 2019 before the pandemic storm. With the annual benchmark revision today, real GDP smashes a new record with second quarter 2021 real economic activity 0.8% higher than it was in Q4 2019 before the pandemic. The economy has achieved escape velocity from which there is no going back.

Wall Street was betting on double-digit growth so the 6.5% growth in the second quarter after a revised 6.3% increase in the first quarter was somewhat disappointing. 6% growth for two consecutive quarters reinforces our view that the peak growth for this recovery is now behind us in the rear view mirror. It remains a question mark whether the coming deceleration in the economy's advance from peak growth will be a soft landing or perhaps something more sudden and potentially more jarring for companies and consumers. Keep your eye on consumer and business confidence. Can the economy run on its

	Q4 19	Q1 20	Q2 20	Q3 20	Q4 20	Q1 21	Q2 21p
REAL GDP	1.9	-5.1	-31.2	33.8	4.5	6.3	6.5
REAL CONSUMPTION	1.7	-6.9	-33.4	41.4	3.4	11.4	11.8
CONSUMPTION	1.1	-4.8	-24.1	25.5	2.3	7.4	7.8
Durables	0.3	-0.9	0.0	5.5	0.1	3.5	0.9
Nondurables	0.0	0.9	-1.9	4.4	-0.2	2.2	1.8
Services	0.8	-4.8	-22.2	15.6	2.3	1.8	5.1
INVESTMENT	-1.2	-0.9	-9.6	11.7	4.0	-0.4	-0.6
Business Plant	-0.3	0.0	-1.8	-0.5	-0.2	0.1	-0.2
& Equipment and	-0.3	-1.3	-2.0	2.7	1.3	0.8	0.7
Intellectual Property	0.3	0.2	-0.5	0.5	0.5	0.8	0.5
Homes	0.0	0.7	-1.4	2.2	1.3	0.6	-0.5
Inventories	-1.0	-0.5	-4.0	6.8	1.1	-2.6	-1.1
EXPORTS	0.2	-2.0	-8.3	4.6	2.1	-0.3	0.6
IMPORTS	1.3	1.9	9.9	-7.9	-3.7	-1.3	-1.1
GOVERNMENT	0.5	0.6	1.0	-0.2	-0.1	0.8	-0.3
Federal defense	0.2	0.0	0.2	0.1	0.2	-0.3	0.0
Fed nondefense	0.0	0.2	1.3	-0.4	-0.4	1.0	-0.3
State and local	0.3	0.5	-0.5	0.1	0.1	0.0	0.1
Below line: Percentage point contributions to Q2 2021 6.5% real GDP							
Second estimate for Q2 is Thursday, August 26							

own without the extraordinary recession-fighting stimulus from Washington. Real GDP is $19.358 trillion in Q2 2021 and the Federal Reserve's $120 billion monthly purchases, $1.44 trillion for the year, is 7.4% of real GDP. The Federal government mailed $600 checks to consumers in January and $1,400 checks in March, a total of $500 billion for the public to spend, and $500 billion is 2.6% of $19.358 trillion real GDP in Q2 2021. Growth of 6 percent is fast and furious now, but for how long will the music continue to play if consumers have to go it alone without the Federal government's support.

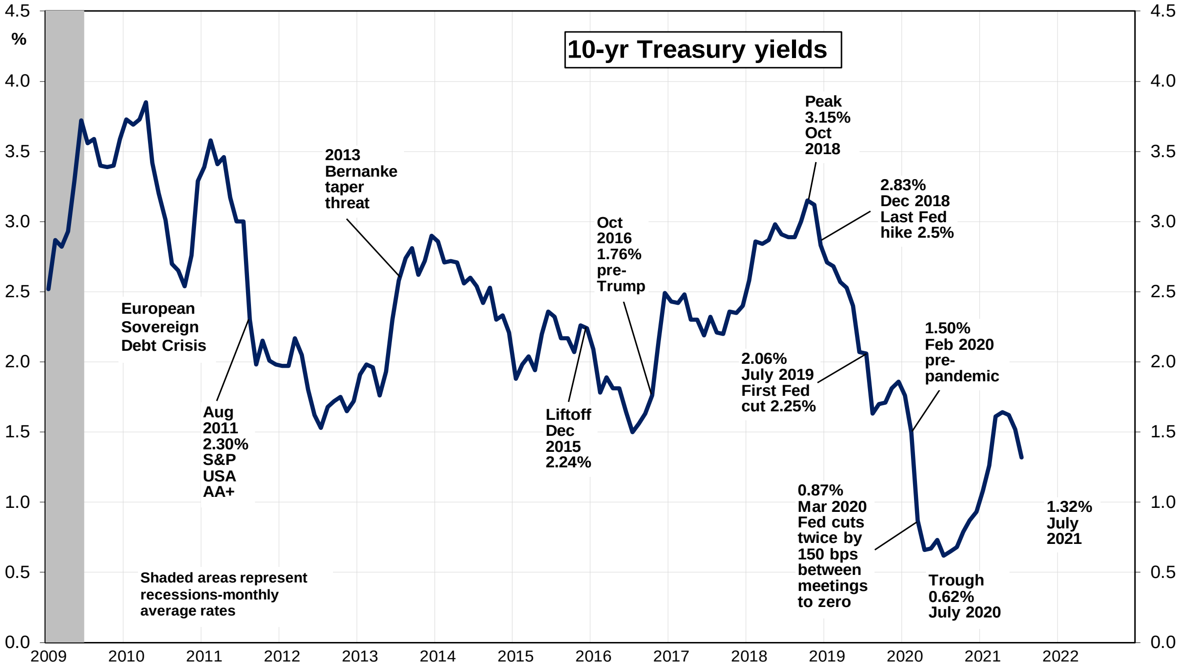
	Seasonally adjusted at annual rates							Change $bil and %	
	2019	2020				2021		2019 Q4	2019 Q4
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	2021 Q2	2021 Q2
Real Gross domestic product (GDP)	19202.3	18952	17258.2	18560.8	18767.8	19055.7	19358.2	**155.9**	**0.8**
Personal consumption expenditures	13249	13014.5	11756.4	12820.8	12927.9	13282.7	13659.3	**410.3**	**3.1**
Goods	4786.9	4790.2	4665.8	5158.9	5155	5476.6	5629.1	**842.2**	**17.6**
Durable goods	1794.7	1738.3	1731.8	2030.6	2036.4	2253.5	2307.4	**512.7**	**28.6**
Motor vehicles and parts	537.5	493	498.4	586.8	589.7	661.2	683.9	**146.4**	**27.2**
Furnishings and durable household equipment	421.8	420.6	415.3	474.3	467.4	517	515.3	**93.5**	**22.2**
Recreational goods and vehicles	596.2	603.7	655.6	726.8	727.7	792.2	809.4	**213.2**	**35.8**
Other durable goods	258.9	248.1	196.9	276.6	285.7	317	332.6	**73.7**	**28.5**
Nondurable goods	3010.1	3061.8	2949.1	3159.9	3151.1	3269.3	3368.1	**358.0**	**11.9**
Food/beverages for home consumption	994.7	1066.8	1056.5	1066.8	1057.9	1103.3	1109.9	**115.2**	**11.6**
Clothing and footwear	415.1	377.5	322.8	428.6	431.8	466.2	501.9	**86.8**	**20.9**
Gasoline and other energy goods	443	414.1	341.7	401.2	388.3	393.7	423.8	**-19.2**	**-4.3**
Other nondurable goods	1137.9	1167.9	1164.8	1223.8	1229	1259.6	1292.5	**154.6**	**13.6**
Services	8505.9	8284.4	7217.3	7815.2	7917	7993.4	8222.3	**-283.6**	**-3.3**
Household consumption expenditures (for services)	8157	7870.2	6748.9	7422.8	7531.9	7622.4	7843.8	**-313.2**	**-3.8**
Housing and utilities	2111.8	2104.9	2128.9	2130.7	2132.5	2142.4	2146.7	**34.9**	**1.7**
Health care	2263.3	2165.7	1782.6	2094.5	2164.4	2140.7	2166.1	**-97.2**	**-4.3**
Transportation services	461.9	429.1	272.4	321.2	325.8	330.1	357.5	**-104.4**	**-22.6**
Recreation services	510.2	462.9	258	344.3	349	371.1	405.7	**-104.5**	**-20.5**
Food services and accommodations	854.6	777.9	514.3	684.3	676.1	725.9	826.1	**-28.5**	**-3.3**
Financial services and insurance	850.9	847.3	842	852.4	864.7	874.7	884.5	**33.6**	**3.9**
Other services	1132.6	1100.7	913.4	986.3	1015.5	1031.8	1055.5	**-77.1**	**-6.8**

Q2 2021 6.5% GDP was weaker than expected, perhaps as economists didn't see a second consecutive quarterly inventory decline coming, at least in terms of magnitude with its 1.1 percentage point drag. Housing starts are falling again and were a 0.5 percentage point drag. Federal nondefense government spending was a 0.3 percentage point drag as the stimulus payments are winding down. We see 4.0% real GDP in Q3 2021 as consumer spending will slow now that the final $1,400 checks have been spent.

Real consumer spending is 3.1% higher now than it was before the pandemic in the table above. Durable goods are up an astounding 28.6% above where it was in Q4 2019. We are sure there are no measurement errors, but these are real dollars and while motor vehicles and parts are up 27.2%, car & light truck sales at an annual rate were 16.9 million in Q4 2019 and are 17.0 million in Q2 2021. Economists are thinking services spending will recover more fully in the second half of the year, and durable goods spending will slow, but we think spending overall will slow dramatically. Eating out and staying in hotels is still 3.3% lower than before the pandemic, and health care doctor visits are down 4.3%. The biggest declines were in Transportation services, trains, planes, and Taxis, down 22.6%, and Recreation services, Disneyland, ballparks, down 20.5%.

Net, net, overall economic demand is strong as a bull and this will continue to put upward pressure on prices and inflation as the economy leaves the downturn further behind. The economy has moved past escape velocity and is now defying the gravitational forces of recession. It is simply wishful thinking on the part of Fed officials if they think supply will catch up with demand as the factories boost their output and keep inflation from going even higher in the months to come. Growth is here to stay. Inflation is here to stay. Bet on it.

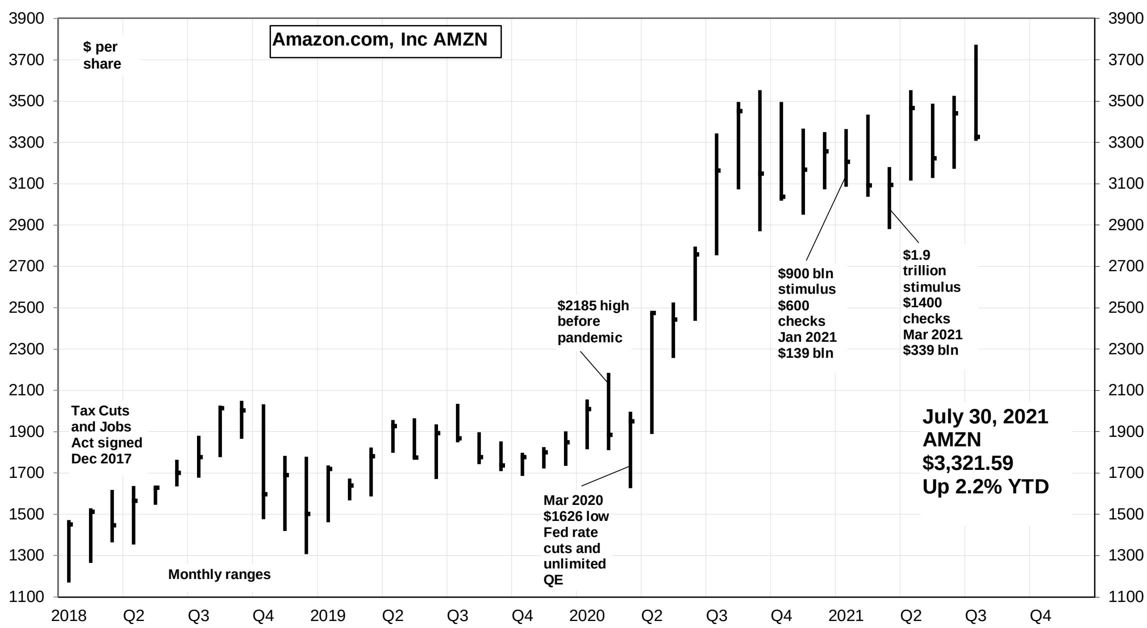
INTEREST RATES



Key events/news this week: China stocks fell hard Tuesday; Powell is closer to tapering, admitting the economy made progress Wednesday, and Q2 real GDP was just 6.5%. Bond yields started sliding from Thursday's 1.27% close, coming down in the evening after Amazon earnings. Yields followed stocks lower, but the trading range was miniscule. Bonds were 1.24% before Friday's 830am ET PCE inflation report, but only moved up 1 bps higher in yield to 1.25% on the news. The close for the month was 1.23% on Friday. Next Friday jobs report helps Powell judge "progress" before Jackson Hole.

Amazon outlook cloudier after huge 2020 pandemic quarters for sales

Amazon reported earnings Thursday after the bell, and Microsoft, Alphabet, Apple reported Tuesday night after the close. Amazon results helped bring stocks lower on Friday; AMZN -7.6% and the S&P 500 -0.5%. Q2 2021 net sales of $113.1 billion was the middle of its 110-116 guidance at the last earnings call. But guidance now for Q3 2021 is $106-112 billion net sales. Amazon Web Services (AWS) sales are slowing; AWS profit this quarter was $4.193 billion, 54.4% of total operating income.



FEDERAL RESERVE POLICY

The Fed met on July 27-28, 2021 to consider its monetary policy. It's over. The Fed's longest QE stimulus in history is closer to the end than it is to the beginning because they have made progress on their maximum employment and inflation goals. You think? They have obviously made too much progress on their inflation goal unless they somehow think that sending the cost of living for Americans this year up over 5 percent higher is good economic policy. There are 55 million people over 65 years old, very few working, who are seeing their savings ravaged by inflation. There are 9.5 million out of work. Since even level-headed Fed officials think the Fed's stimulus is only putting people back to work perhaps a year earlier than would be the case naturally in any economic recovery, it looks to us like the cost of this emergency stimulus is too great and that it is hurting more Americans than it is helping. And keep in mind the number of unemployed in the best economy in fifty years before the pandemic was 6 million, so there are really just 3 million and change who are in a pickle, out of work, and without a means to support themselves and pay the rent and bills.

Okay calm down. The Federal Reserve is inching closer to scaling back its $120 billion of asset purchases as they claim for the first time they are making progress on their goals. We wouldn't rule out some stray comments from the Fed Chair at Jackson Hole next month that the time to start to pare back the emergency stimulus could be "soon." The word "soon" would then be the signal that a tapering schedule would be announced at the September Fed meeting to be implemented in October. This would be our hope anyway. At the very least the announcement of progress today means that a start date for tapering could begin sometime later this year as opposed to the market consensus view of a Q1 2022 start date. Stay tuned. Two more employment reports to go before the September Fed meeting. A tapering announcement is possible if the stars align and the 5.9% unemployment rate falls further from the 6.7% rate when the Fed met in December 2020. Progress. Bet on it. The shortest recession in U.S. history with a length of two months doesn't need over a year of quantitative easing to support the economy.

Fed Monetary Policy Moves at a Glacial Pace, but it is moving. From December 2020, Jan 2021, March 2021, April 2021, June 2021, language was "substantial further progress." At least we are making "progress" towards normalization.

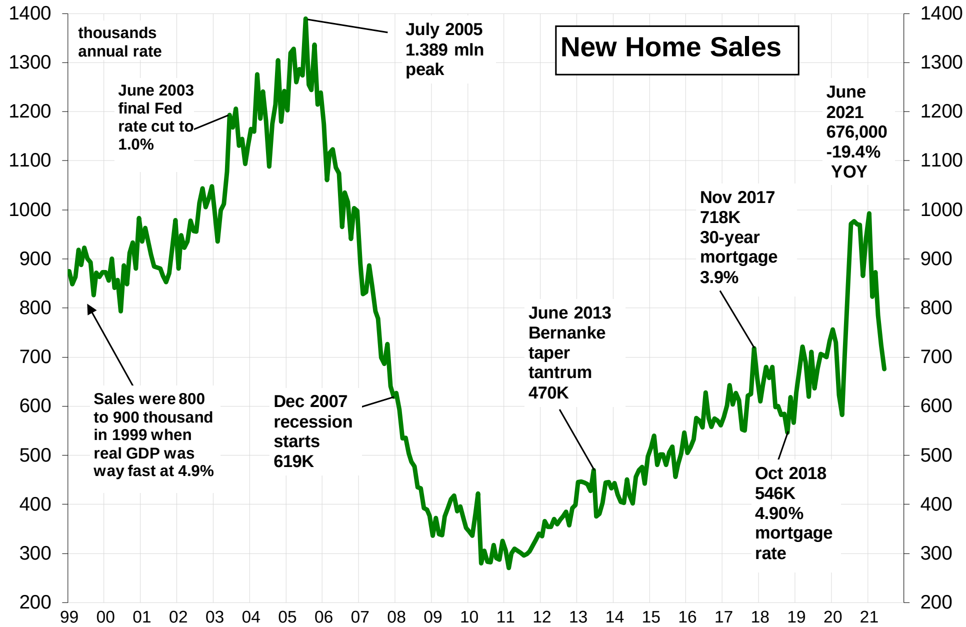
July 28, 2021 Press Statement
Last December, the Committee indicated that it would continue to increase its holdings of Treasury securities by at least $80 billion per month and of agency mortgage-backed securities by at least $40 billion per month until substantial further progress has been made toward its maximum employment and price stability goals. Since then, the economy has made progress toward these goals, and the Committee will continue to assess progress in coming meetings.

June 16, 2021 Press Statement
In addition, the Federal Reserve will continue to increase its holdings of Treasury securities by at least $80 billion per month and of agency mortgage-backed securities by at least $40 billion per month until substantial further progress has been made toward the Committee's maximum employment and price stability goals.

OTHER ECONOMIC NEWS

New home sales falling (Monday)

Breaking economy news. New home sales reached just short of 1 million at an annual rate in July through September in 2020 during the work-from-home rush during the height of the pandemic, but sales have been falling rapidly this year and fell 6.6% in June 2021 to a new recovery low of 676 thousand at an annual rate. There seems to be enough supply with the number for sale moving up steadily higher over April, May, and June, so perhaps rapid home price appreciation is leading to the sales pullback. The median sales price at $361,800 in June 2021 doesn't show much appreciation, but other indicators show home prices generally 20 percent higher over the last year.



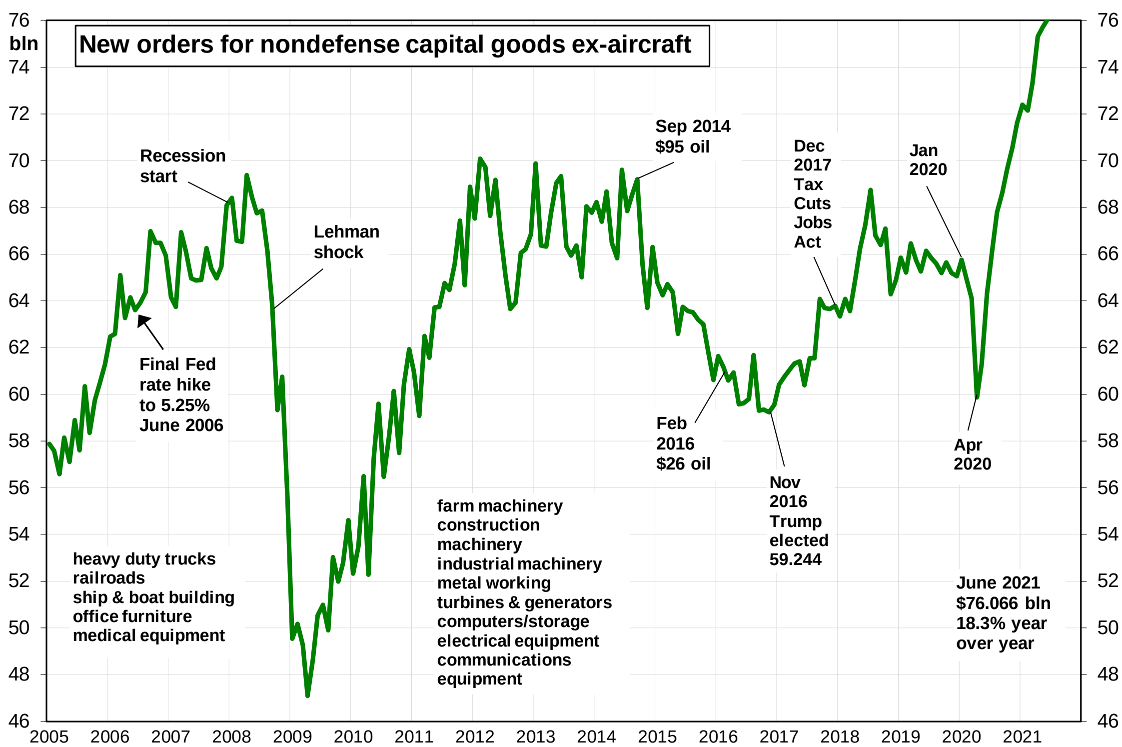
New Home Sales						
	Total	Northeast	Midwest	South	West	Median Price $
Dec 2020	943	41	112	553	237	365,300
Jan 2021	993	47	124	575	247	373,200
Feb	823	40	104	465	214	362,000
Mar	873	47	109	550	167	359,600
Apr	785	42	88	472	183	378,200
May	724	43	87	398	196	380,700
Jun	676	31	92	367	186	361,800
	Thousands at Seasonally Adjusted Annual Rate					

New record business capital goods orders (Tuesday)

Breaking economy news. The durable goods report for June. Our proxy for business investment continues to show strength despite the worrisome outbreak in new Delta variant cases. Nondefense capital goods orders ex-aircraft rose 0.5% in June to a record $76.066 billion. Communications equipment is behind the push with orders there jumping 6.4% in June. The much-larger category of Machinery equipment rose 0.6% in June. Computers and electronic products rose 1.0% while Electrical equipment and appliances were unchanged.

The only weakness seen in the report is in the 1.1% drop in Fabricated metal products which is an important sector that employs almost 20 percent of all durable manufacturing workers in the country even if these goods are not part of nondefense capital goods ex-aircraft.

Net, net, new business investment shows no sign of a slowdown at midyear where orders for long-lived capital goods reached record highs. Record orders for equipment that companies use to produce goods and services means businesses are forecasting record demand in the second half of the year. The economy may have passed peak growth, but the growth is still likely to be stronger than normal for the rest of this year and well into 2022. Business equipment orders are extremely sensitive to economic conditions and the strong orders seen in June show no sign of caution over the rapid spread of the Delta variant that is leading to new restrictions and limitations being placed on the public. If record business investment is a leading indicator of the economy, the future looks very bright indeed.

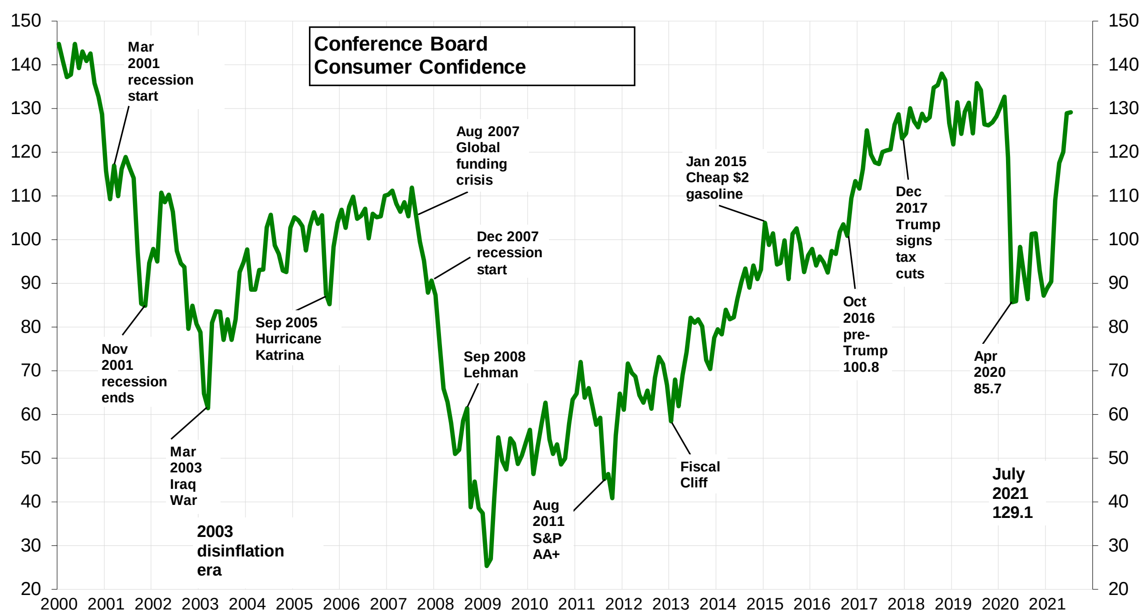


Consumer confidence: beware of inflation threat (Tuesday)

Breaking economy news. Consumer confidence ticked higher in July despite other surveys of consumer sentiment showing the public turning more cautious this month, possibly due to the Delta variant outbreak. Even with an upward revision in June, confidence remains slightly short of the best economy in fifty years level before the pandemic struck in early 2020. Consumer confidence in July is 129.1 up from 128.9 in June where June had been 127.3 previously. Confidence beat market expectations, but which market is the question as the report is doing nothing to bring stocks up from a lower opening.

Last month consumers had correctly said the labor market had improved a week before the monster 850K payroll employment report for June. In July those saying jobs were plentiful moved up slightly to 54.9% from 54.7% in June, and those saying jobs were hard to get were unchanged at 10.5%. The Conference Board said inflation expectations eased slightly, but consumers still see one of the biggest inflation outbreaks in years and higher inflation could be the one key factor that leads the economy down the road to ruin in the second half of the year if prices don't stop rising. One-year inflation expectations are still out of the ballpark at 6.6% in July versus 6.7% in June which helps no one except social security beneficiaries who could get the biggest cost-of-living adjustment in decades.

Net, net, consumer confidence could not be any higher but be wary of the sharp rise in inflation expectations that could yet stop the economic recovery in its tracks if consumers scale back their purchases because the cost of goods and services have gone too high. Many economic downturns in history have been caused by a sudden jump in the price level of goods and services beyond what consumers are willing and able to pay and we are already seeing that in the housing market where sky-high home prices are making buyers cautious. If inflation doesn't stop going up, the consumer is going to stop buying at some point. Bet on it.



Record trade deficit in June (Wednesday)

Breaking economy news. The U.S. red ink in trade with the world continues to shatter records as economies overseas are weaker in this recovery from the pandemic than current business conditions are here in the USA, USA. We are saying this with less than 24 hours to go before the first look at Q2 2021 real GDP that could be double digits. Trade will be a drag on growth, but not enough to slow the freight train coming down the track. The economy overall is strong. The recession was only two months long. Why is the Fed doing more easing than they have in any other recession in history? Maybe Powell will tell us at 230pm ET today after the meeting. Why the Fed continues to dole out free money with its quantitative easing purchases still at emergency, emergency stimulus levels is beyond us. Maybe in addition to the maximum employment mandate (maximum is what, infinity?), they also have a mandate to stoke the fires of the growing asset bubble with home prices and stock market appreciation, together, up 20 percent on average this year.

The advance look at the trade deficit shows a deficit in goods in June of $91.207 billion up from $88.160 billion in May and $71.170 billion a year ago June 2020 during the pandemic. The Delta variant isn't hurting goods imports here with an increase of 1.5% in June, although much of the increase is in Foods, feeds, beverages and in Industrial supplies, supplies that include petroleum and related products that are seeing a big jump in prices.

Net, net, the trade war with China and other trading partners of the U.S. has done nothing to turn around the trade deficit in goods. Made in America isn't happening in part due to the consumer's appetite for foreign made goods. In June exporters shipped $18.1 billion in consumer goods overseas, while importers brought in $62.2 billion of consumer goods, explaining about half of America's trade deficit with the world. The bottom line is that America can't stop its addiction to foreign made goods and the change of Administrations in Washington isn't returning factories and jobs back to the U.S. yet.

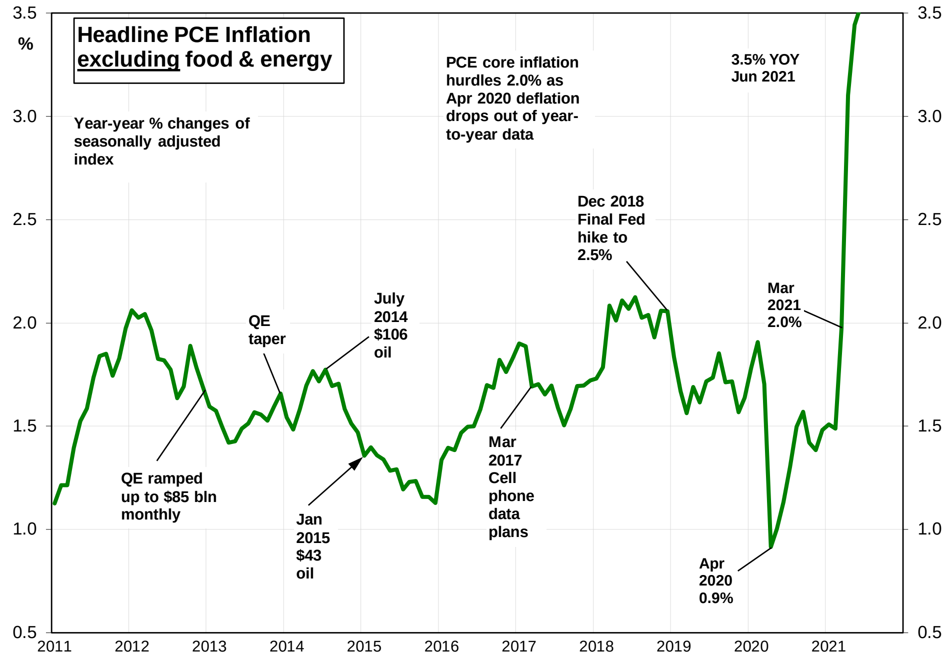
ADVANCE TRADE STATISTICS FOR JUNE

	Monthly				Percent changes		
Seasonally adjusted Trade	Jun 2021	May 2021	Apr 2021	Jun 2020	Jun 21 May 21	May 21 Apr 21	Jun 21 Jun 20
Balance	-91,207	-88,160	-85,912	-71,170			
Exports	145,459	144,969	144,574	103,466	0.3	0.3	40.6
Foods, Feeds, & Beverages	12,759	13,981	13,683	10,383	-8.7	2.2	22.9
Industrial Supplies (1)	53,465	52,312	52,171	32,955	2.2	0.3	62.2
Capital Goods	43,763	43,786	44,238	35,382	-0.1	-1.0	23.7
Automotive Vehicles, etc.	11,565	11,369	11,915	8,270	1.7	-4.6	39.8
Consumer Goods	18,083	17,956	16,977	12,344	0.7	5.8	46.5
Other Goods	5,825	5,565	5,588	4,132	4.7	-0.4	41.0
Imports	236,666	233,130	230,486	174,637	1.5	1.1	35.5
Foods, Feeds, & Beverages	16,004	15,385	14,544	12,404	4.0	5.8	29.0
Industrial Supplies (1)	56,716	52,252	49,684	35,730	8.5	5.2	58.7
Capital Goods	63,237	62,577	63,705	49,974	1.1	-1.8	26.5
Automotive Vehicles, etc.	28,466	29,187	29,359	18,616	-2.5	-0.6	52.9
Consumer Goods	62,234	63,984	63,719	50,725	-2.7	0.4	22.7
Other Goods	10,010	9,745	9,475	7,187	2.7	2.9	39.3

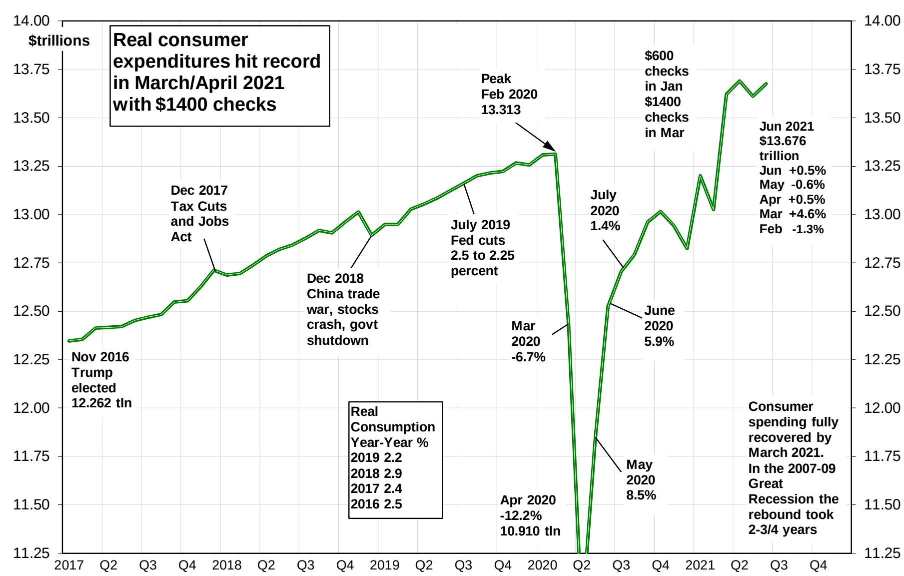
(1) Includes petroleum and petroleum products.

Consumer spending shifts from goods to services, inflation steady (Friday)

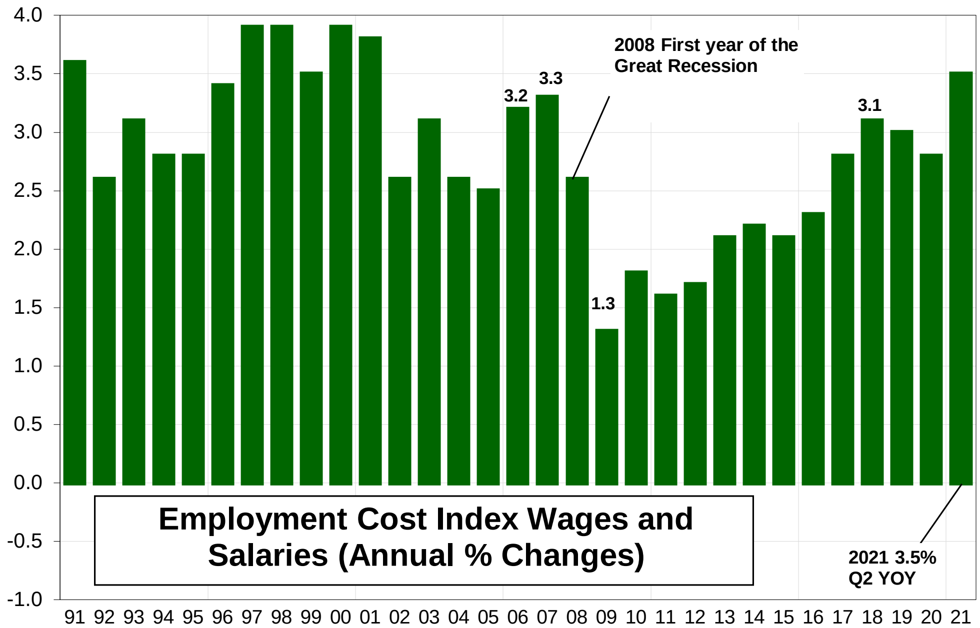
Breaking economy news. The personal income report for June. Consumer expenditures in real terms shifted from durable goods to services in June. Time will tell if the spending switch on the reopening from the pandemic will taper off on the new restrictions issued in many states from the spread of the Delta variant. Inflation is steady although at a blow-the-doors off year-year rate of 4.0% for headline PCE inflation and 3.5% for core PCE. Fed officials are watching core consumer inflation like a hawk and some on the committee of rate-setters will take comfort that core inflation only moved up a notch from 3.4% year-year in May. Only 3.5%. Imagine.



Net, net, consumer spending has been strong but for how long as much of the income to spend came from the massive Federal government economic income payments, $600 checks in January, $1400 in March, that pushed personal income up to $24.142 trillion in March and now it stands at $20.414 billion in June after increasing a slight 0.1% from May's level of income. Speaking of income, we forgot to mention the Employment Cost Index (ECI) for Q2 2021 was released at the same time this morning at 830am if you want to see how you stand in the wage pool relative to other salarymen and women. Not quite as exciting as the average hourly earnings wage data in the monthly employment situation report, but nevertheless wages and salaries increased 1.0% in Q1 2021 and 0.9% in Q2 2021 and the Q2 2021 wages are 3.2% higher than they were a year ago for civilian workers. Private industry wages were a little better at 3.5% year-year for Q2 2021. Historically, it doesn't get much better than this for private sector employees, at least in the last two decades where the prior best was 3.3% during the housing bubble years in 2007.



There is a clear shift in consumer preferences from spending on durable goods versus services now that summer is here and movement restrictions from the pandemic have lessened. But many states have reinstituted a mask requirement late in July and this could take a toll on economic growth and make consumers more shy about venturing out and shopping at the mall as we approach a critical period of back-to-school spending for many retailers. Stay tuned. Story developing. The growth spurt in the first half with real GDP over 6% was bought in large part with Federal government stimulus payments and time will tell if this slows the recovery in the second half of the year. 2021 will see a drop-off in economic growth in the second half, that much is certain, the only question is whether the economy falls off a cliff or whether the slowdown is more measured.



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