A robust recovery continues, aided by monetary and fiscal stimulus – along with pent up business and consumer demand. While the US economy may well be reaching a peak in economic growth rates, growth itself likely has a long runway. Capital spending remains strong, which may placate the fear of rising inflation as productivity improves. Core inflation is running at 3.8% year over year in May (CPI clocked in at 5% year over year). Fed Chairman Jerome Powell asserts that the inflation impacts on the economy are largely transitory, citing demand exceeding supply for goods and services. There will be many imbalances in wage, supply/demand and other factors that will ultimately determine the amount of inflation in the system. Powell's assessment may or may not be accurate.

During periods of rising inflation, bonds become unattractive until rates have stabilized at peak levels on longer dated maturities. The ten year note has been trending lower over the last three months, currently hovering below a yield of 1.5%. The infrastructure bill with no new taxes or user fees attached, if passed, may send rates higher. The $1.2 Trillion bill (of which $579 billion is new incremental spending) over the next eight years, is dedicated to infrastructure projects: roads, bridges, water infrastructure, broadband and public transit. Impediments to passage are numerous. The primary sticking point is making passage of this bill contingent on the passage of the much larger American Families Act. Ultimately, the infrastructure bill will probably be signed into law, as it is popular on a standalone basis with the majority of voters. Regardless of inputs, inflation is problematic on many levels for the vast majority of assets. Select equities that keep pace through pricing power, commodities and commercial real estate have also been historic havens through inflationary periods.

One possible derailment for a sustained rally in equities is the Delta variant (along with other emerging variants of the coronavirus such as Lambda) spreading rapidly around the globe. While it appears the vaccination campaign is very successful domestically and all looks to be returning to a somewhat normal state, any reversal in policies to open up the economy will be devastating on many fronts. Alternate problematic inputs are a persistent climb in wages placing upward pressure on inflation, geopolitical events, and lack of action by Congress if the debt limit is not raised or suspended by July 31st. There will always be threats to any asset class, including equities or safe havens during rising inflation. Critically important to the success of any investment plan is maintaining a long term perspective. The unpredictable, whether positive or negative, will always be part of the equation.

On a positive note, consumer confidence is consistently moving higher. Up for the last five consecutive months, June's read provides the highest level since February 2020. The saving rate domestically has rocketed to the mid teens, down from even higher levels in January. This translates into a vast asset base in savings and checking accounts which may eventually migrate to other financial assets. Home prices have surged on a year over year basis - 14.6%, the fastest pace since 1979 – driven by strong demand/ low rates/ tight housing inventory.

Consolidating/ interpreting data to project long term growth rates is exceedingly difficult - if not impossible over the longer term. Numerous obstacles and unknown variables lie along the path, the most impactful in the near term being government debt and deficient levels, excessive monetary and fiscal stimulus scaling back as the economy fully recovers from the pandemic's effects. The Fed will have the daunting task of reaching full employment while maintaining a target inflation rate. All eyes will continue to focus on the Federal Reserve.

Please call/email anytime with any questions/ concerns. Best for a wonderful summer!

Notes:

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