Weekly Market Commentary
June 28th, 2021

Banks Clear Stress Tests, But Should We Still Be Worried?

- The Federal Reserve released the results of its annual stress test, which is designed to test the resilience of large banks under severe global recessionary conditions. The results showed that all 23 banks comfortably passed the stress test, clearing the way for lifting the pandemic-related restrictions on dividends and share repurchases. Banks are expected to disclose their capital-return plans beginning on Monday, June 28, with analysts looking for dividend hikes in the third quarter and a significant acceleration in share repurchases.

- While the news is not surprising, the reported strength in the banking system and increased payouts can help sustain the positive sentiment towards the financial sector, which is the second-best performing this year after energy, up 24%.

- After weeks of negotiation, President Biden and a bipartisan group of senators announced an agreement on an infrastructure deal that carves out $579 billion from the $2.25 trillion American Jobs Plan that was unveiled in March. The agreement focuses on traditional infrastructure such as roads and bridges as well as water infrastructure and broadband and comes with no new taxes because it is funded by repurposing unused pandemic relief funds, tougher Internal Revenue Service tax collection, and selling oil from the Strategic Petroleum Reserve.

- The agreement still faces significant headwinds to becoming law because support from the Democrats is contingent upon Congress also passing legislation with funding for priorities around the environment and human infrastructure. From a market perspective, tax hikes are still on the table if a larger bill is passed via reconciliation, but the corporate tax rate might settle lower than initially proposed if a separate bipartisan deal is signed. The $579 billion would add to GDP growth, but only modestly since the spending is spread out over eight years.

(source: oXYGen & Jones)

Markets For The Week

INDEX	CLOSE	WEEK
Dow Jones Industrial Average	34,434	3.44%
S&P 500 Index	4,281	2.76%
NASDAQ	14,360	2.35%
MSCI EAFE	2,331	-.81%
10-yr Treasury Yield	1.53%	1.32%
Gold	$1,778	.23%
Bonds	$114.86	-.38%

Source: Reuters/Wall Street Journal

Biden, Senators Agree On New $1 Trillion Dollar Infrastructure Plan….So What's In The Details?? (source: Reuters/WSJ)

WASHINGTON—President Biden and a group of 10 centrist senators agreed to a roughly $1 trillion infrastructure plan Thursday, securing a long-sought bipartisan deal that lawmakers and the White House will now attempt to shepherd through Congress alongside a broader package sought by Democrats.

Mr. Biden and Democratic leaders said that advancing the deal on transportation, water, and broadband infrastructure will hinge on the passage of more elements of Mr. Biden's $4 trillion economic agenda. The two-track process sets up weeks of delicate negotiations to gather support for both the bipartisan plan and a separate Democratic proposal, a challenging task in the 50-50 Senate and the narrowly Democratic-controlled House. Here are some of the details of the bipartisan framework released by the White House, valued at $1.2 trillion over eight years, $579 billion of which is new spending:

NEW SPENDING

- Roads, bridges, and other major projects: $109 billion
- Power infrastructure, including grid authority: $73 billion
- Passenger and freight rail: $66 billion
- Broadband infrastructure: $65 billion
- Water infrastructure, such as eliminating lead pipes: $55 billion
- Public transportation: $49 billion
- Resilience (preparing infrastructure for the impacts of climate change such as floods and other extreme weather events, and cyber-attacks): $47 billion
- Airports: $25 billion
- Environmental remediation: $21 billion
- Creation of an Infrastructure Financing Authority focused on clean transportation and clean energy: $20 billion
- Ports, waterways: $16 billion
- Safety, including grants to add bike lanes and other steps to protect vulnerable road users:

$11 billion

- Electric vehicle infrastructure, including chargers: $7.5 billion
- Electric buses, transit: $7.5 billion
- Western water shortage: $5 billion

FINANCING

The plan includes several proposals to finance the spending. Republicans sketched out those plans:

- Improve tax enforcement: Net increase of $100 billion after $40 billion invested in enforcement
- Public-private partnerships and "direct-pay" municipal bonds: $100 billion
- Redirecting unused COVID-19 relief funds: $80 billion
- Proceeds from 5G wireless networks spectrum auction: $65 billion
- Estimated macroeconomic impact of infrastructure investment: $58 billion
- Redirecting unused unemployment insurance money returned from U.S. states: $25 billion
- Reinstating Superfund fees for chemicals. Superfund, the program for cleaning up the nation's worst hazardous waste sites, was originally financed primarily through taxes on petroleum products, chemicals, and corporate income: $13 billion
- Extending expiring customs user fees: $6.1 billion
- Sale of oil from the U.S. Strategic Petroleum Reserve: $6 billion

(source: Wall Street Journal)

Market News, Corporate Earnings, and News & Notes

(source: CNBC)

Fed Chairman Jerome Powell Says 70's Style Inflation Is Very Unlikely (source: CNBC)

Federal Reserve Chairman Jerome Powell acknowledged Tuesday that some inflation pressures are stronger and more persistent than he had anticipated, though still not on par with some of the worst episodes the U.S. has seen historically.

Under questioning from a special House panel, the central bank leader continued to attribute most of the recent inflation surge to factors closely tied to the economic reopening.

Among them, Powell cited airline tickets, hotel prices, and lumber along with generally surging consumer demand pumping up an economy that a year ago faced substantial government-imposed restrictions in the early days of Covid-19.

Those factors, he said, should "resolve themselves" in the coming months.

"They don't speak to a broadly tight economy and to the kinds of things that have led to higher inflation over time." Powell's mandated testimony provided an economic update and covered the pandemic-related tools Congress gave the Fed during the crisis.

"I will say that these effects have been larger than we expected, and they may turn out to be more persistent than we have expected," he added. "But the incoming data are very consistent with the view that these are factors that will wane over time, and inflation will then move down toward our goals, and we'll be monitoring that carefully."

Headline price inflation was up 5% year over year in May, the highest in nearly 13 years amid a jump in used car prices and a slew of other goods that have seen surging demand as restrictions have loosened.

The latest update on the Fed's preferred inflation gauge, the core personal consumption expenditures price index, comes Friday. The Dow Jones estimate is for a 3.4% year-over-year increase in May, higher than the 3.1% in April. If that estimate is correct, it would be the highest reading since April 1992.

Committee Republicans repeatedly pressed Powell on whether the economy was headed toward the hyperinflation of the 1970s and early '80s when inflation peaked above 10%.
Powell said such a scenario is "very, very unlikely."

"What we're seeing now, we believe, is inflation in particular categories of goods and services that are being directly affected by this unique historical event that none of us have ever lived through before," he said.

"You have a central bank that's committed to price stability and has defined what price stability is and is strongly prepared to use its tools to keep us around 2% inflation," he said. "All of these things suggest to me that an episode like what we saw in the 1970s… I don't expect anything like that to happen.
Source: (CNBC)

Earnings Highlights This Week

- Nike- Nike's fiscal fourth-quarter earnings and sales were fueled by record revenue in its largest market, North America. Digital sales were up 41% compared with the prior year and rose 147% compared with the same period in 2019. Nike also saw a boost to its wholesale business — something that was largely inactive a year earlier during the Covid pandemic. It also offered a better-than-expected sales outlook for the upcoming year.

- Darden Restaurants- Darden Restaurants on Thursday reported that its fiscal fourth-quarter same-store sales nearly returned to 2019 levels. The company's earnings and revenue topped analysts' expectations. The company also released an outlook for fiscal 2022, predicting that its total sales for the year will top pre-pandemic revenue.

News and Notes:

How To Protect Your Summer Vacation Plans
If The Delta Variant Strikes Us This Summer

What type of insurance can you buy?

- Standard travel insurance covers most items, but not all travel insurance policies cover pandemics like coronavirus-read the fine print

- Cancel for any reason (CFAR) insurance- costs more (roughly 40%), but your safest best if you think you might back out (only get back 75%)

Could I be covered from my credit card?

- Most cards do not provide any real trip protection

- Some high annual fee cards (can name AXP Platinum Card here) offer protection up to $10,000 per person and $20,000 per card

- However, cards generally do not cover pandemics

What Happens If You Booked An AirBnB? (source: Airbnb.com)

- Airbnb has used the term 'extenuating circumstances'-a pandemic disease requires special AirBnb review BUT some hosts have been more flexible

- Ask closely about reservations and what would happen should something pandemic like arise again as policies are changing all the time.

Final thought- your best bet (ask questions, run scenarios, and read the fine print especially as it relates to epidemics or pandemics

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