Weekly Market Commentary
June 14th, 2021

Is Inflation Going To Hit Double Digits Again Like The 1980s?

It is not just the weather that's heating up as we enter the summer months. Inflation, as measured by the consumer price index (CPI), rose 5.0% from a year ago, and the core index, which excludes food and energy, rose 3.8%, the largest 12-month increase since 1992. Easy comparisons, as prices collapsed last year during the height of the pandemic, continue to exaggerate the yearly increases. However, prices also rose strongly on a month-over-month basis. The core index increased 0.7% in May from April, above the 0.5% expected and more than three times the average monthly increase over the last five years.

Despite the hotter-than-expected data, government bond yields fell to their lowest levels in three months, and stocks hovered near record highs. Since the April inflation data was released last month, investor views appear to have taken a 180-degree turn, shifting from fear of runaway inflation to the belief that price pressures are transitory and will soon subside. What should your view be on the recent drivers of inflation and the likely path of inflation from here?

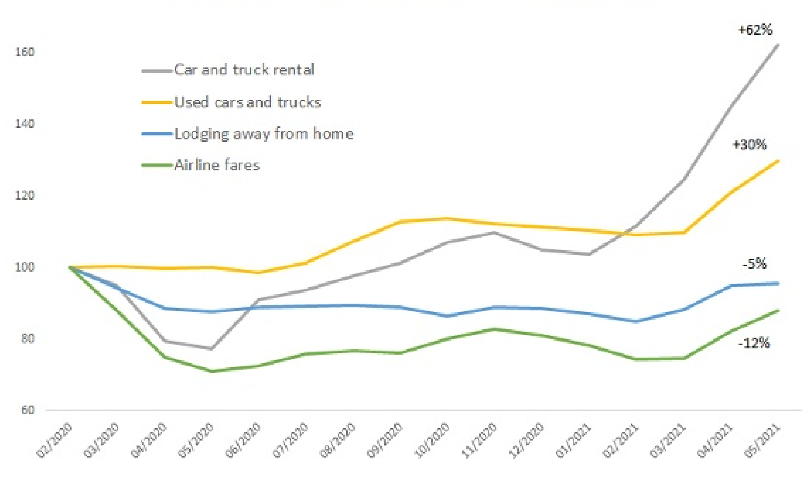
1. Reopening demand, along with supply bottlenecks, continues to push prices higher

- Like the April surge, the jump in prices in May was largely driven by a handful of categories that have been most affected by the pandemic and are now benefiting from the reopening of the economy. Car rental, airfare, food away from home (restaurants), and, to a smaller extent, hotel prices experienced sizable increases, reflecting the release of pent-up demand as consumers return to their typical spending habits. Further increases should be expected, as airfare is still below its pre-pandemic level by 12%, and hotel prices by 5%.

- The impact of supply shortages and bottlenecks was also prevalent. Used-car prices continued to rise sharply in May, increasing 7.3% in May from April and accounting for about one-third of the overall increase in inflation. Semiconductor shortages are still affecting new car production, but some of these supply-chain pressures are starting to ease.

- Outside of leisure and accommodation, price increases for other services that tend to be stickier, like medical care and education, were muted.

Select Consumer Price Index Components (Feb 2020 = 100)



Source: Bloomberg

Description: The graph shows price trends for select consumer basket categories since the pandemic started. Reopening demand for services and supply shortages for goods have been driving outsized gains.

2. Transitory, enduring, or something in between?

- Last week's inflation data does not provide a resolution to the great inflation debate. Below are three possible scenarios, along with thoughts of which one is the most likely.

- **Scenario 1 – inflation transitory** : So far, the surge in prices is concentrated in the pandemic-hit sectors, supporting the argument that inflation will prove to be transitory. As it pertains to goods inflation and bottlenecks, supply will catch up, and demand will eventually normalize. Such a scenario where inflation subsides back to the Fed's 2% target would be positive for both bonds and stocks.

- **Scenario 2 – inflation enduring** : On the other end of the spectrum, there is a possibility that fast-rising prices become embedded in consumer expectations. Also, if wage growth accelerates, that would increase the chance of a sustained rise in inflation. Anecdotal evidence and surveys indicate that small businesses are facing labor shortages as hiring picks up. The jobs-hard-to-fill component of the NFIB small business survey released last week rose to a record high, as shown in the graph below. Many jobs in leisure and hospitality are coming back with a higher compensation structure because employers are struggling to fill positions. If elevated inflation is sustained amid rising wages, increased rents, higher commodity prices, and a falling dollar, the Fed would be forced to hike rates aggressively. Runaway inflation, similar to what occurred in the 1970s, would undoubtedly be negative for both stocks and bonds. This is a low-probability scenario.

- **Scenario 3** – **Spike is temporary,** but inflation settles at higher levels compared with the last expansion - The most plausible scenario, in our view, is that after the upward pressure on prices from the reopening subsides later this year, inflation will settle moderately above the Fed's 2% target. Consumers have surplus savings, and by the end of the second quarter, the economic slack will be eliminated. Wages are likely to accelerate, but an increase in the labor-force participation, along with productivity gains from technological adoption, could keep cost-push inflation in check. Under this scenario, the Fed remains patient but starts hiking rates sometime in 2023, slightly earlier than the current committee's projections. Slightly above-target inflation is likely to be neutral for stocks because companies with pricing power can maintain profitability levels, but it is moderately negative for bonds.

(source: oXYGen & Jones)

Markets For The Week

INDEX	CLOSE	WEEK
Dow Jones Industrial Average	34,480	-.80%
S&P 500 Index	4,247	.40%
NASDAQ	14,069	1.85%
MSCI EAFE	2,365	.90%
10-yr Treasury Yield	1.45%	-6.45%
Gold	$1877	-.74%
Bonds	$115.23	.48%

Source: Wall Street Journal

Will The Big Tech Companies Be Broken Up- Lawmakers Would Like It

House lawmakers proposed a raft of bipartisan legislation aimed at reining in the country's biggest tech companies, including a bill that seeks to Amazon and other large corporations effective split in two or shed their private-label products.

If the bills become law—a prospect that faces significant hurdles—they could substantially alter the most richly valued companies in America and reshape an industry that has extended its impact into nearly every facet of work and life.

One of the proposed measures, titled the Ending Platform Monopolies Act, seeks to require structural separation of Amazon and other big technology companies to break up their businesses. It would make it unlawful for a covered online platform to own a business that "utilizes the covered platform for the sale or provision of products or services" or that sells services as a condition for access to the platform. The platform company also couldn't own businesses that create conflicts of interest, such as by creating the "incentive and ability" for the platform to advantage its own products over competitors.

A separate bill takes a different approach to target platforms' self-preferencing. It would bar platforms from conduct that "advantages the covered platform operator's own products, services, or lines of business over those of another business user," or that excludes or disadvantages other businesses.
The proposed legislation would need to be passed by the Democratic-controlled House as well as the Senate, where it would likely also need substantial Republican support.

Each of the bills has both Republicans and Democrats signed onto it, with more expected to join, congressional aides said. Seven Republicans are backing the bills, with a different group of three signings on to each measure, according to a person familiar with the situation.

"Unregulated tech monopolies have too much power over our economy," said Rep. David Cicilline (D., R.I.), the top Democrat on the House Antitrust Subcommittee. "They are in a unique position to pick winners and losers, destroy small businesses, raise prices on consumers, and put folks out of work. Our agenda will level the playing field."

Rep. Ken Buck (R., Col.), the panel's top Republican, said he supports the bill because it "breaks up Big Tech's monopoly power to control what Americans see and say online, and fosters an online market that encourages innovation."

The four companies didn't comment on the proposed legislation Friday. All have defended their competitive practices and said that they operate their products and services to benefit customers.
Matt Schruers, president of the Computer & Communications Industry Association, whose members include Facebook, Amazon, and Google, said the House bills would disrupt Americans' ability to use products that they like. "Writing regulations for a handful of businesses will skew competition and leave consumers worse off," he said.

Roku Inc., which competes with several of the tech giants, applauded the lawmakers for "taking a crucial step toward curbing the predatory and anticompetitive behaviors of some of the country's most powerful companies."

Gaining sufficient Republic support for the bills will be an uphill battle: While Republicans are concerned about technology companies' power, many are skeptical about changing antitrust laws. Even if they pass, the laws could take years to implement as federal agencies try to enforce them over the companies' likely legal objections.

"The fact that there is day-one support from Republican antitrust leaders suggests these bills are definitely in the doable range," said Paul Gallant, an analyst with Cowen & Co. "But the gap between sounding tough at a hearing and actually voting for a breakup is significant. I do wonder if these bills can get to 60 [votes] in the Senate."

Friday's announcement covered five bills designed to curb Big Tech's dominance.
Another of the measures would force online platforms to make their services interoperable with those of competitors, which could mean different social networks must allow their users to communicate or allow e-commerce sellers to export their customer reviews from one site to another, according to a summary provided by lawmakers.

A fourth bill targets mergers, making it unlawful for a large platform to acquire rivals or potential rivals. The bill would have prevented only "a small percentage of all technology sector deals" over the past decade, the summary said.

Lawmakers also introduced a bill to raise filing fees for mergers valued at more than $1 billion and lower them for transactions under $500,000. It would generate an estimated $135 million for antitrust enforcement in its first year, the summary said. Similar legislation recently passed the Senate.

(source: Wall Street Journal)

Market News, Corporate Earnings, and News & Notes

(source: CNBC)

Household Net Worth Climbs To 136.9 Trillion Thanks To The Markets

The net worth of U.S. households climbed to new heights as 2021 began and the effects of the Covid-19 pandemic began to fade.

Thanks largely to a surge in the stock market, the total balance sheet for households and nonprofits rose to $136.9 trillion in the first quarter, a 3.8% gain from the end of 2020, according to Federal Reserve data released Thursday

Of that total, $3.2 trillion came from equity holdings, while $1 trillion was due to the continued escalation in real estate values. The S&P 500 gained 7% for the quarter as investors anticipated rising corporate earnings and accommodative fiscal and monetary policy while also placing speculative bets on so-called meme stocks.

From a historical perspective, household net worth has nearly doubled from its level of a decade ago as the nation was still escaping the throes of the Great Recession.

The increase left net worth as a share of disposable income at just under 700%, off the all-time high at the end of 2020 but still elevated in historical terms.

Household debt totaled $16.9 trillion for the quarter, growing at a 6.5% rate that was the fastest pace going back to 2006.

The gain in household value came as the growth rate in total private and government debt slowed to 5.8% from 6.3% in the fourth quarter of 2020, and was much lower than in the first quarter of last year. That was when government spending pumped trillions into the economy and triggered debt growth at a 10.8% level, followed by a 25.6% increase in the second quarter.

Federal government debt increased 6.5% in the first quarter, well below the 10.9% rate in the last three months of 2020 but still enough to push the total debt level to just below $28 trillion at the end of the quarter. State and local government debt rose at a 3.8% rate, compared with 1.6% in the previous quarter.

After slowing considerably in the second half of 2020, business debt picked up again, rising at a 4.4% pace.

Source: (CNBC)

Earnings Highlights This Week

- Stitch Fix- Stitch Fix shares soared after the online shopping and styling service reported a narrower-than-expected loss in its fiscal third quarter. Sales topped analysts' estimates, driven by consumers refreshing their wardrobes and looking for styles in new sizes. Stitch Fix raised its revenue outlook for the full year, after previously lowering it due to the uncertainty stemming from the Covid pandemic. It offered a better-than-expected sales outlook for its fiscal fourth quarter.

- Restoration Hardware- RH's fiscal first-quarter profit and sales beat analysts' estimates, as the high-end furniture chain saw continued strong demand for its sofas, rugs, lighting, and other home decor. RH also hiked its full-year outlook and gave a stronger-than-expected sales forecast for the second quarter. CEO Gary Friedman said that a strong housing and renovation market, a record stock market, low-interest rates, and the reopening of the U.S. economy all bode well for the company.

- GameStop- GameStop sales rose 25% in the fiscal first quarter as the company focuses on e-commerce and tries to stage a turnaround. The video game retailer said it had tapped Amazon executive Matt Furlong as its new CEO. It declined to provide a forecast for the year but said sales momentum has continued into the second quarter.

News and Notes:

How Long Will "Chipageddon" Last For The Shortage Of Cars?

What Happens If You Face Eviction At The End Of June?

Eviction protections end June 30th for renters, what should they do?

- More than 14% of renters are behind as the national eviction ban comes to end on June 30 th.
- 1 out of 5 renters are behind by more than $5,000 of rent and total rent in arrears is estimated to be more than $50 billion.
- Be proactive: Talk to your landlord, see if you qualify for housing assistance, and know your state laws.

Why are car prices surging in price right now? (ted can men

- New car price was $37,200 in Q1/Used Cars north of $25,000
- Three big factors: Pent-up demand for new vehicles and good used cars, a reopening economy, and a huge

chip shortage hurting production.
- The best way to start with a buying car is to use:
    - 20/4/10 Rule:
    - 20% down payment
    - 4 don't finance more than four years
    - 10% car costs shouldn't be more than 10% of income

What are some smart shopping tips if you are buying a car?
- Get pre-approved for a loan (credit score matters)
- Research – Kelly Blue Book (kbb.com), Cargurus.com (cheap cars), and Auto Tempest (comparison).
- Expand Your Zip Code- going more rural may allow you to find the car you want.
- Don't Be Impulsive- but don't be slow- like home sales inventory is in short supply and high demand with automobiles.

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