

Economic highlights from the week ending on July 9, 2021

William Dennehy II, CFA
Deputy Chief Investment Officer

The economic calendar was light post the July 4th holiday with only three data releases of moderate significance. The ISM Services Index was released on Tuesday and while still solidly in expansion territory at 60.1, the release was below the market consensus forecast of 63.5 and lower than the previous monthly release of 64.0. Initial Jobless Claims ticked a touch higher, but with continuing claims continuing to trend toward pre-pandemic levels the Chandler team believes the job market outlook remains sound.



The Consumer Credit report was also released late this week and showed a large increase to \$35.3 billion versus the consensus estimate for an increase of \$18.0 billion. Although more of a lower tier data release, the Chandler team believes the elevated Consumer Credit increase is a positive for the recovery outlook, indicating consumers are comfortable spending. In Chandler's view the reopening theme for the US economy remains intact despite some of the recent negative global news on the Delta variant of the coronavirus. Notably the recently announced prohibition of spectators at the Tokyo Olympics highlights the inconsistent vaccination progress in many developed market economies which will serve to stretch out the timeline on the ultimate recovery of the global economy.

The fixed income Treasury market has been volatile of late, and the theme continued in the holiday shortened week. We believe multiple factors are at work exacerbating the move in interest rates further out the Treasury yield curve. Some market participants appear to be questioning the Federal Reserve's Flexible Average Inflation Target (FAIT) regime which has recently led to short maturity Treasury rates increasing and longer maturity Treasury rate decreasing. The Chandler team believes the recent commentary from some of the Federal Reserve Governors is more hawkish than the 'core' of the Federal Reserve (Chair Powell, Vice Chair Clarida, and NY Fed President Williams) with the 'core' fully embracing the FAIT framework. The Federal Reserve's June 2021 Summary of Economic Projections highlights the dichotomy between various member of the Committee, with some calling for an increase in the Fed Funds rate as early as 2022 while others forecast the Federal Funds rate to remain at the zero-lower bound through 2023. We continue to believe the Federal Reserve will be patient in adjusting monetary policy settings with a formal announcement on the tapering of quantitative easing later in the year and adjustments to the Fed Funds rate not anticipated until the tapering process is complete. Our view remains the Federal Reserve's objective is for the US economy to run 'hot' providing the opportunity for core inflation to remain comfortably at the 2% or higher level and a "full employment" objective as the economy normalizes and pandemic economic dislocations recede.

The coming week will be a busy one for market participants. Several top tier data releases will help to clarify the outlook with the Consumer Price Index being released on Tuesday, the Producer Price Index on Wednesday, and Retail Sales on Friday.



Next Week

Consumer Price Index, Producer Price Index, Empire Manufacturing, Philly Fed, Industrial Production, Retail Sales.

Chandler Asset Management | info@chandlerasset.com | 800.317.4747 | chandlerasset.com



Copyright © 2021. All Rights Reserved.

© 2021 Chandler Asset Management, Inc. An Independent Registered Investment Adviser. Data source: Bloomberg, Federal Reserve, and the US Department of Labor. This report is provided for informational purposes only and should not be construed as specific investment or legal advice. The information contained herein was obtained from sources believed to be reliable as of the date of publication, but may become outdated or superseded at any time without notice. Any opinions or views expressed are based on current market conditions and are subject to change. This report may contain forecasts and forward-looking statements which are inherently limited and should not be relied upon as an indicator of future results. Past performance is not indicative of future results. This report is not intended to constitute an offer, solicitation, recommendation or advice regarding any securities or investment strategy and should not be regarded by recipients as a substitute for the exercise of their own judgement. Fixed income investments are subject to interest rate, credit, and market risk. Interest rate risk: the value of fixed income investments will decline as interest rates rise. Credit risk: the possibility that the borrower may not be able to repay interest and principal. Low rated bonds generally have to pay higher interest rates to attract investors willing to take on greater risk. Market risk: the bond market in general could decline due to economic conditions, especially during periods of rising interest rates.