CHANDLER ASSET MANAGEMENT

Economic highlights from the week ending on July 9, 2021

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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.