CHANDLER ASSET MANAGEMENT

Economic highlights from the week ending on February 26, 2021

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Treasury yields climbed this week, with the 10-year Treasury yield rising roughly 12 basis points from last Friday to 1.45% (up 54 basis points year-to-date), and the 5-year Treasury yield rising 19 basis points week-over-week to 0.77% (up 41 basis points year-to-date), at the time of this report. Meanwhile, the short end of the Treasury yield curve remains anchored near 0.0%, driven by ongoing accommodative monetary policy. The ICE BofA MOVE Index (a measure of U.S. Treasury yield volatility) jumped more than 20% week-over-week, to its highest level since last April. The spread between 2-year Treasury yields and 10-year Treasury yields has widened to 131 basis points from 54 basis points in the last six months. We believe the continued steepening of the Treasury yield curve is consistent with an improving economic outlook, more widespread vaccine distribution, the anticipation of ongoing fiscal stimulus, and a pick-up in inflation.

Fed Chair Powell reiterated again this week that the Fed plans to keep rates low and that the Fed's bond purchases will continue *at least* at the current pace until there is more substantial improvement in the labor market and inflation. Although Fed Chair Powell suggested that the growth of US gross domestic product (GDP) could be in the range of 6% this year (notably, much higher than the Fed's most recent median projection of 4.2% in December), he continues to believe that the economy is still a long way from reaching their goals. While the Fed anticipates that inflation could be somewhat volatile this year, they don't believe any increase is likely to be large or persistent, and Chair Powell noted that inflation dynamics "don't change on a dime."

Economic data was mostly positive this week, including a sizable improvement in weekly initial jobless claims (albeit still high relative to historical norms), and continued strength in home prices and new home sales. Personal income levels jumped in January (helped by fiscal relief payments), which helped fuel a recovery in personal consumption expenditures. Meanwhile, the month-over-month increase in the Leading Economic Index (LEI) was better than expected in January. According to the Conference Board, the pace of increase in the LEI suggests the economy should improve gradually over the first half of 2021.

Next Week

ISM Manufacturing, Construction Spending, ISM Services, Beige Book, Productivity & Costs, Factory Orders, Consumer Credit, Employment