

Economic highlights from the week ending on March 12, 2021

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President Biden signed the \$1.9 trillion fiscal relief plan yesterday, bringing the total amount of pandemic-related fiscal relief legislation in the last year to about \$5.5 trillion. At this time last year, financial markets were in turmoil amid an uncertain global economic outlook. Over the past year, robust fiscal spending along with the Federal Reserve's highly accommodative monetary policy has provided support for the financial markets. On a year-over-year basis, the S&P 500 index is up nearly 60%. Yesterday, President Biden indicated that every American adult will be eligible to receive a vaccine by May 1, 2021. With the vaccine rollout speeding up, many states and counties now easing restrictions, another substantial round of fiscal relief in the pipeline, and an ongoing backdrop of low interest rates and accommodative monetary policy, we believe economic growth is poised to accelerate meaningfully in the second quarter.



The consensus forecast for 2021 US gross domestic product (GDP) growth is now 5.5% (following a decline of 3.5% last year), substantially above the Fed's longer-run growth rate target of 1.8%. It is projected to be the strongest annual growth rate for GDP since 1984 (albeit following the steepest decline in annual GDP since 1946). Expectations of rising inflation have been increasing among market participants, driving up longer-term Treasury yields, with the yield on 10-year Treasuries up more than 70 basis points year-to-date to about 1.63%. While the steepening of the yield curve has been relatively swift, the yield on 10-year Treasuries remains nearly 30 basis points lower than it was pre-pandemic at the end of 2019.

The Federal Open Market Committee is scheduled to meet next week and will provide an updated 'dot plot' and summary of economic projections. While we are not expecting any significant changes to the Fed's policy statement, we will be looking closely for any changes in the dot plot that would suggest a more hawkish outlook for monetary policy. Given the many recent public statements by Fed policymakers, we expect monetary policy to remain accommodative this year and we expect policymakers to look through any near-term increase in inflation, even if it begins to exceed 2.0% as we cycle the deflationary impact of the pandemic last year.



Next Week

Empire State Manufacturing, Retail Sales, Industrial Production, Housing Starts, FOMC Meeting, Philly Fed, Leading Indicators

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