At Passage Wealth, it is important to us that you are well informed about what's happening in the markets. Here are a few of the key topics of conversation that we feel deserve the most attention this month. If you have any questions or would like to continue the conversation, let us know, and we appreciate the opportunity.

These days, everything is about the Fed. Fed Chairman Powell has continued to defend the Fed's accommodative policy in testimony to Congress. However, he noted the central bank is keeping a close eye on inflation numbers, which have spiked over the last number of months. The Fed believes the rise in inflation to be a temporary effect of the recovery from the economic shutdowns, stimulus, and a shift in spending patterns. It is our expectation inflation will rise throughout most of 2021 and begin to recede in 2022.

Speaking of inflation, June's inflation figures topped most estimates and rose 5.4% compared to the year prior, which was an increase from the 5.0% and 4.2% seen in May and April, respectively[1]. June's increase was the largest yearly increase since August 2008 and was partially fueled by a dramatic 10.5% in the prices for used cars and trucks[2]. The drastic increase in used cars and other reopening-sensitive areas, such as airfares and lodging, provides some evidence to the Fed's position that this bout of inflation may be temporary. Regardless, now might not be the best time to buy a used car.

The jobs market continues to face headwinds with employers struggling to fill 9 million open roles, a record high, even though the economy has 6.7[3] million fewer jobs than we did in February 2020[4]. Many economists anticipate this mismatch to gradually work itself out with potential workers juggling unemployment benefits, child care, health concerns, pay demands, and early retirements.

In his testimony to Congress, Fed Chair Powell noted the labor market "still has a long way to go" and cited strong job growth in June along with high quitting rates, but with a stubborn unemployment rate at 5.9%. We expect a labor shortage to continue into September when extra unemployment benefits expire and school starts.

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[1] Source: US Bureau of Labor Statistics, retrieved from Bloomberg.
[2] Source: US Bureau of Labor Statistics, https://www.bls.gov/news.release/cpi.nr0.htm.
[3] Nonfarm Payrolls, June 2021 vs. February 2020. Source: US Bureau of Labor Statistics
[4] Source: US Bureau of Labor Statistics, retrieved from Bloomberg.

In the middle of the month, the Senate Democrats released a $3.5 trillion budget resolution with the White House quickly endorsing the proposal that would extend child tax credits, fund major climate initiatives, and fund universal pre-K along with a host of other programs. Initially, only an outline of the proposal was released, surely setting the stage for heated debates and arguments in DC as the policy details are revealed and votes are marshaled. We are watching this closely to determine the potential economic and tax ramifications.

Early in the month, comments from the NY Fed rattled markets briefly as they announced plans to start gradually selling its corporate bond holdings and reducing the size of the balance sheet. The markets are expecting bigger scale asset sales from the Fed at some point, hopefully, telegraphed far in advance, but this once came as a bit of a surprise to the market, though the market quickly stabilized. We definitely expect volatility when bond "tapering" officially begins.

The bottom line: The economy and markets are in a good spot right now, despite recent volatility spikes due to the potential resurgence of COVID-19. Some counties, such as LA County, have already begun re-implementing restrictions that may delay the total recovery. However, we do not see this as a systemic market threat just yet.

Disclosures