

Wentz Weekly

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Powell Signals Tapering By Year End



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Leading up to the keynote speech by Federal Reserve Chairman Powell at Jackson Hole, most Fed district bank presidents are typically interviewed to give their perspectives on economic conditions, monetary policy, and answer questions. Even though the event went virtual again this year, we still heard from many of the Fed district bank presidents, most of which gave a more hawkish view than what Powell had portrayed in his speech. Dallas Fed President Kaplan said “we’re seeing resiliency” in businesses and consumers. The Fed banks are in communication with businesses and consumers and conducting surveys and so far they have seen no change in conditions due to the delta variant and have not changed their view on economic conditions or the path of monetary policy. Kaplan went on to say there is a concern about inflation but also concern for excess risk taking which he says has led to some distortions in financial markets which could lead to unintended side effects. Kansas City Fed president Esther George said with current conditions the level of accommodation is not needed and she supports tapering sooner than later. Fed governor Richard Clarida, Christopher Waller, Cleveland’s Loretta Mester, St Louis’ James Bullard, Atlanta’s Raphael Bostic, and Philadelphia’s Patrick Harker all echoed similar comments. At the end of the day, the one that carries the most weight is Fed Chairman Powell.

The S&P 500 made its 52nd record high of the year on Friday following Jerome Powell’s much anticipated (virtual) speech at the Jackson Hole Economic Symposium. Powell reiterated much of what we already knew but made an upgrade on his assessment of the labor market. The Chairman of the Fed said its inflation goal has been met, and was confirmed again with another inflation reading showing a 4.2% increase in prices from a year ago according to the personal consumption expenditure price index, but he continues to believe many of these inflationary pressures will ease and are not a cause for concern. Powell shifted his tone on the labor market, saying “clear progress” has been made on working back to maximum employment, an upgrade from his prior statements that “substantial further progress” is still needed. Powell also made it clear scaling back quantitative easing will not “carry a direct signal regarding the timing of interest rate liftoff” which the Fed will have a “substantially more stringent test,” which we translate to Powell saying the Fed is nowhere near raising rates and much further progress is needed in the economy before even considering this. Our view is Powell is being cautious and does not want to act too soon with the risks of the Delta variant and still 5.7 million people without a job compared to February 2020. We believe if the August labor report exceeds expectations on Friday, Powell will be prepared to announce a taper plan at the conclusion of the September 21-22 FOMC meeting and begin tapering in October or November. As of now, the consensus sees an additional 740,000 payrolls in August. Remember, tapering does not mean tightening, it just means letting off the gas pedal a little.

The House committed to holding a vote on the \$1 trillion bipartisan infrastructure bill in a compromise to pass a measure to approve the \$3.5 trillion budget resolution, unlocking the reconciliation process in a key move for the Democrats. Lawmakers and committees are now working on drafting detailed spending plans outlined in President Biden’s Build Back Better agenda that includes significant spending on “human infrastructure”. The measure passed along party lines 220-212 and once formalized if it moves to the Senate it can pass with a simple majority under reconciliation rules. To get to this point, Pelosi had to negotiate with 10 moderate Democrats who wanted to hold a vote on the already Senate approved \$1 trillion infrastructure bill before moving forward with a budget resolution. In return, Pelosi committed to a September 27 deadline to hold a House vote on the bill, which includes spending on physical infrastructure such as roads, bridges, airports, water, and broadband. For the budget bill, party leaders have set a September 15 deadline to draft spending plans which puts pressure on Democrats to work on the budget quickly.

Personal income and consumer spending remains strong into the summer months and shows no sign of slowing down. According to the Bureau of Economic Analysis, in July income rose 1.1%, well above estimates, with wages and salaries rising a strong 1.0%. The others category of government social benefits, which in past months included stimulus payments, rose 23% in July, reflecting the advanced payments of the child tax credit many families received on July 15. Families with children receive a credit of \$3,000 per child (\$3,600 if under 6) and Biden instructed half of the credit to be given in advanced payments from July through December. That means a family of 3 (over the age of 6) would receive \$750 per month from July to December. On the other hand, consumer spending rose 0.3% as expected, driven by a 1% increase in spending on services. The increase in spending on services was offset by a 1.1% decline in spending on goods as consumers continue to shift their spending on services away from goods as people get more comfortable going out. Much of the could possibly be attributed to less vehicle purchases due to the chip shortages as durable goods purchases was down 2.3% in the month. Because of the higher income, the savings rate increased in the month to 9.6% from 8.8% in June (versus the 10-year average prior to the pandemic of 7.2%). Americans are saving a historically high amount of disposable income, something we think will continue to fuel growth going forward.

Company News

- Affirm, a payment network that lets customers buy items now and pay back on installments, announced its flexible payment solution will be available to Amazon customers soon. The companies are testing the “buy now, pay later” feature and plan to roll it out in the coming months.
- Last week, a California Superior Court judge ruled Proposition 22 to be unconstitutional. The ballot initiative exempted companies like Uber and Lyft from treating its drivers as employees.
- Last Monday, the Food and Drug Administration granted full approval for the Covid vaccine developed by Pfizer and BioNTech. The vaccine will be marketed under the name Comirnaty and approved for those over 16 years old.

The Week Ahead

The earnings calendar is light again this week with just several second quarter earnings reports. Notable companies reporting include Zoom Video on Monday, PVH and CrowdStrike on Tuesday, Veeva, Chewy, and Five Below on Wednesday, and DocuSign, Signet Jewelers, and Broadcom on Thursday. It will be a busy week with economic data reports with the highlight of the week being the employment report on Friday where 740,000 new jobs are expected to be added in August. If it is an in-line or better than expected report then the chances of a taper announcement in the Fed’s September meeting will be high. Other reports include the Case Shiller Home Price Index and the survey on consumer confidence Tuesday, PMI manufacturing indices from around the globe, including the U.S., on Wednesday, and trade data and jobless claims on Thursday.

The S&P 500 is an unmanaged index of 500 widely held stocks that is generally considered representative of the U.S. stock market. The Dow Jones Industrial Average (DJIA), commonly known as “The Dow” is an index representing 30 stock of companies maintained and reviewed by the editors of the Wall Street Journal. The Russell 2000 Index measures the performance of the 2,000 smallest companies in the Russell 3000 Index, which represent approximately 8% of the total market capitalization of the Russell 3000 Index. The NASDAQ composite is an unmanaged index of securities traded on the NASDAQ system. Every investor’s situation is unique and you should consider your investment goals, risk tolerance and time horizon before making any investment. Sector investments are companies engaged in business related to a specific sector. They are subject to fierce competition and their products and services may be subject to rapid obsolescence. There are additional risks associated with investing in an individual sector, including limited diversification. Information contained herein was received from sources believed to be reliable, but accuracy is not guaranteed. Information provided is general in nature and is not a complete statement of all information necessary for making an investment decision and is not a recommendation or a solicitation to buy or sell any security. Investing always involves risk and you may incur a profit or loss. Keep in mind that individuals cannot invest directly in any index. Past performance does not guarantee future results. There is no assurance these trends will continue, or forecasts will occur.