As some semblance of normalcy returns, the US economy is experiencing a record economic recovery. During the second quarter, Real Gross Domestic Product (GDP), which includes the impact from inflation-adjusted prices, grew at an annualized rate of 6.5%, which was in-line with the growth recorded in the first quarter. Personal consumption, the biggest driver of the economy, grew 7.8% and was propelled by pent-up demand, unprecedented fiscal and monetary stimulus, and successful vaccine distribution.

The labor market is also recovering quickly. In July employers added 943,000 jobs and the unemployment rate fell to 5.4%. While job growth has been robust, there is still plenty of slack in the labor market. There are 5.7 million fewer jobs than pre-pandemic and the rate is still far from the pre-pandemic rate of 3.5%. However, the record number of job openings suggests this slack should tighten very quickly over the next year.

Strong GDP growth, a healthy labor market, and unprecedented stimulus have stoked concerns that inflation will begin to outpace economic growth. The most widely followed metric for measuring inflation, the Consumer Price Index (CPI), increased 5.3% compared to a year ago and Core CPI increased 4.5%. This was the fastest increase in 30 years and topped the Federal Reserve's inflation forecast, but the Fed continues to maintain that inflation is a transitory result of supply chain disruptions. Even though the economy is experiencing price inflation, to put the CPI figure in perspective, nominal GDP growth was 13% last quarter, which demonstrates that the pace of economic growth is well exceeding inflation.

Even though inflation is in the headlines, the bond market and the Federal reserve are not concerned. Yields on US Treasuries remain at historical lows and are signaling a low inflation environment. Even after June's unexpectedly high CPI number, yields on longer-term treasuries have continued to fall. The 10-year Treasury remains around 1.20%, the lowest levels since February, and 30-year rates remain well below 2.00%. Typically yields fall in low growth, low inflation environments, and rise with higher growth and reflation.

One factor suppressing long-term rates is the Federal Reserve's asset purchase program. The Fed continues to purchase $120B of assets each month, including US Treasuries, to keep rates low, which facilitates lending and boosts asset prices, including the housing market. Over the last year, the Federal Reserve has expanded its balance sheet from around $4 trillion to $8 trillion by purchasing assets across a variety of investment classes and through other monetary policy measures. In the quarters ahead, the Fed is likely to begin to taper its asset purchasing program, which will likely cause long-term yields to rise and the yield curve to steepen. As monetary stimulus begins to unwind and the yield curve steepens, this will naturally affect the economy, and may slow sectors like the housing market, and hurt equity valuations in what's called a "taper tantrum". However, this is all part of the equilibrium that the Fed is aiming to balance.

The pandemic-caused recession was unlike any recession we've seen in its quick severity. Most recessions are financially driven, and in these types of recessions, companies and people are slow to resume spending and hiring. However, this time, due to the actions of the Federal Reserve and the US government, many businesses continued to spend, invest, and innovate during the recession, and the fiscal stimulus along with shutdowns forced consumers to save. As a result, many businesses and consumers have healthier balance sheets than ever. On top of this, the pandemic accelerated innovation and investments in technology. Technological advancement is a key driver of productivity, growth, and is a deflationary force that helps keep inflation in check over the long-term.

ECONOMIC CHARTS

as of June 30, 2021

Figure 1

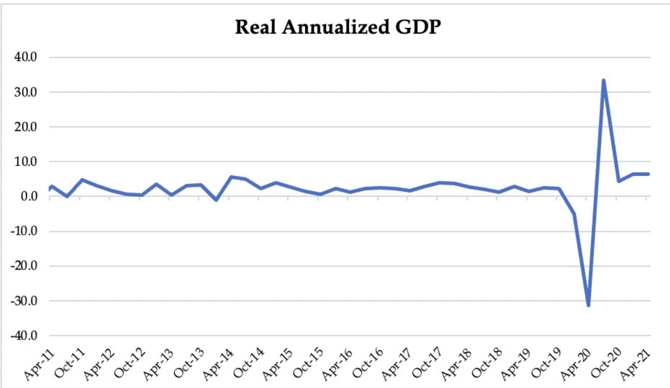


Figure 3

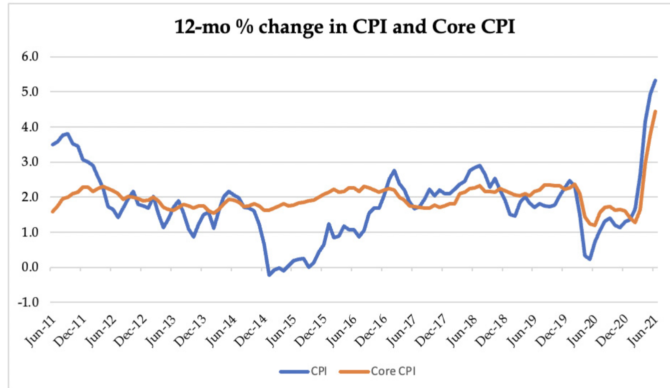


Figure 2

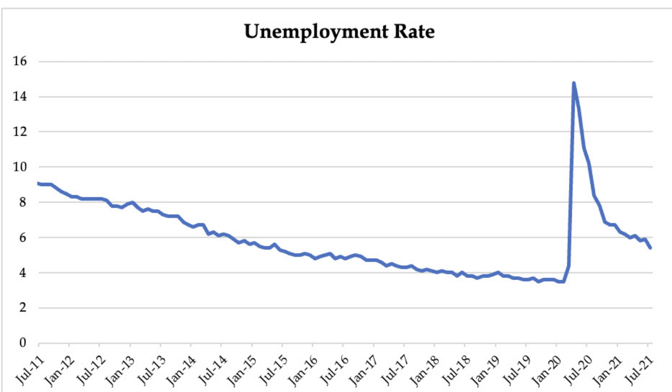
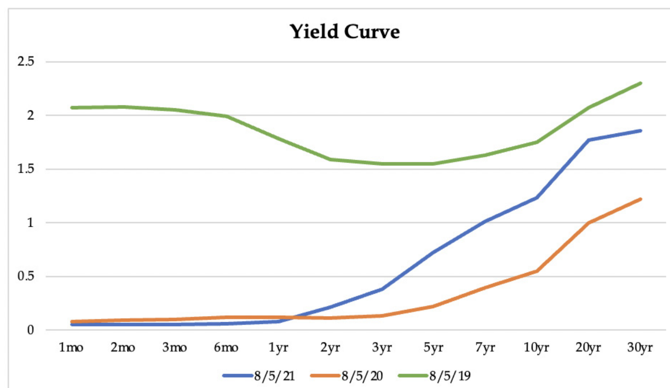


Figure 4



LEADING ECONOMIC INDICATORS

as of July 22, 2021

	Current Reading	1-month change	6-month change
Conference Board Leading Economic Index	115.1	2.1	6.1
S&P 500	4,238	2.3%	19%
Average weekly hours, manufacturing	41.3	-0.3	0.0
Initial Jobless Claims	396.8	-165.4	-338.7
Manufacturers' new orders capital goods ex. Aircraft	41,054	0.0%	5%
Manufacturers' new orders, consumer goods and materials	119,951	-0.9%	-6%
ISM New Orders	66.0	1.7	0.3
Building Permits	1,598	-7.8%	-6%
Spread between 10yr Treasury note and Federal Funds Rate	1.44	-0.1	0.7
Avg. Consumer Expectations for Business Conditions	0.87	0.2	1.7
Leading Credit Index (negative readings are positive for the LEI)	-2.10 -0.34	-0.4 -0.11	-0.4 +0.08