OBSERVATIONS

- Covid-19: The U.S. announced plans to acquire nearly all of Abbott Lab's $5 COVID-19 test kits to be manufactured in 2020. The 15-minute tests are expected to cost $750 million for 150 million units.
- Trade representatives from the U.S. and China held a 6-month review of phase 1 of the economic and trade deal signed in January of this year. The dialogue was constructive, which softened tensions for now.
- A 92-yr run comes to an end: After first being added to the (price weighted) Dow Jones Industrial Index in 1928, Exxon Mobil will be removed and replaced by software cloud company Salesforce.[1]
  - The energy complex now makes up less than 3% of the S&P 500, compared to nearly 25% in 1980.[1]
- Hotel pain: nearly 25% of hotel commercial mortgages are in delinquency (30 days or more) – a record. New York, Houston, and Chicago are of the hardest hit with delinquency rates of 38%, 66%, & 53%, respectively.[2]
- Housing momentum: new data shows sales of newly built homes rose 13.9% MoM in July driven by a surge in the Midwest region where purchases increased 58% (sales rose 13% in the South & 7.8% in the West, while they declined 23.1% in the Northeast).[3]
- Commerce department reported that July's durable goods orders rose by 11.2% from prior month on strong automobile demand. Excluding transports, orders rose by 2.4% - both figures beat consensus estimates.[3]
- Category 4 hurricane Laura made landfall last week, temporarily shuttering about 84% of the U.S. oil production as well as about 61% natural gas production and leaving about 450,000 people without power.[4]
- The U.S. technology sector has a market capitalization of $9.1 trillion and is now larger than the entire European (including the U.K. and Switzerland) stock market, which has a $8.9 trillion market capitalization.[5]

EXPECTATIONS

- Employment data and economic conditions could worsen in the weeks/months ahead.
  - Stalled hiring – almost half (47.2%) of U.S. employers who have made furloughs or layoffs are considering additional workforce adjustments in the next 12 months while another 16.4% have implemented hiring freezes.[6]
  - White House executive action slow to roll out – to date only 32 states are offering additional (federally funded) unemployment benefits.[7]
  - Non-federally mortgage backed rental property eviction risks remain. Landlords tend to be represented by legal counsel 80% of the time vs. tenants that retain attorneys only 10% of the time.[8]

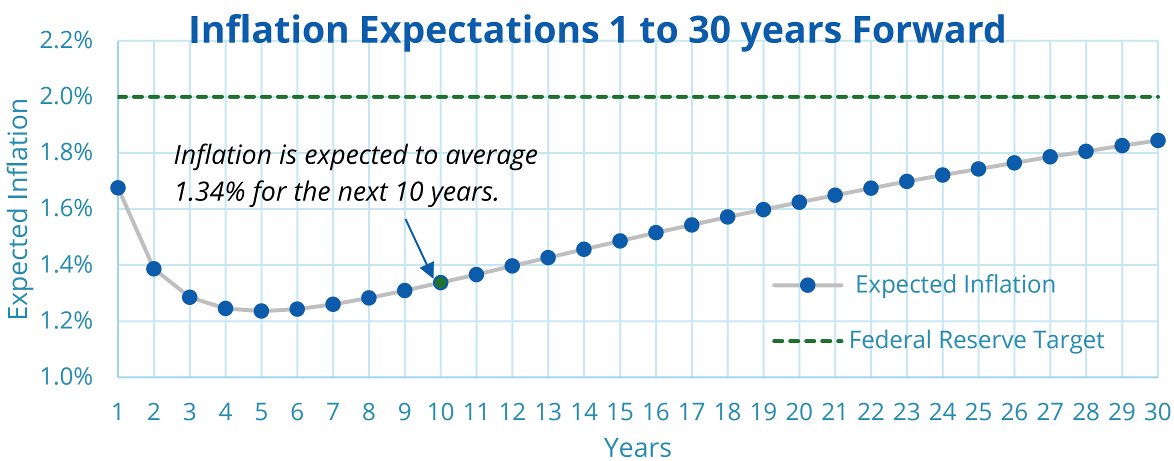
ONE MORE THOUGHT – *Lower for longer revisited*

The congressional mandate for the Federal Reserve is twofold: (1) promoting maximum employment and (2) ensuring stable prices. Late last week the Federal Reserve held its annual economic policy symposium (traditionally hosted by the Kansas City Federal Reserve Bank in Jackson Hole, Wyoming - this year was held virtually). This year's symposium titled "Navigating the Decade Ahead" set the stage for a refinement to the Fed's policy related to its response to rising inflation rates (i.e. the latter mandate of price stability). Since 2012 and to date, the Fed has

[1] *CNBC.com, Marketwatch, Bloomberg LP*
[2] *Trepp https://info.trepp.com/trepptalk/an-update-on-the-hard-hit-hotel-and-retail-commercial-real-estate-sectors*
[3] *Bloomberg LP*
[4] *WSJ "America's Fuel-Making Corridor Prepares for Hurricane Laura" & "Hurricane Laura Slams Into Gulf Coast, Weakens to Category 2 Storm" 26/27-Aug*
[5] *Bank of America Global Research, CNBC.com*
[6] *Randstad RiseSmart COVID-19 employer survey, 25-Aug*
[7] *https://www.unemploymentpua.com/articles/lwatracker.html*
[8] *https://www.nytimes.com/2020/08/24/business/tenants-lawyers-eviction-moratorium.html*

judged that a 2% inflation rate is consistent with achieving the dual mandate of price stability and maximum employment.[9] However, since 2012 Personal Consumption Expenditures (PCE – the Fed's preferred measure for inflation) has averaged only 1.3%[9]. During the symposium, Federal Reserve Chair Powell laid out the foundation for a "robust updating" of the Fed's mandate towards price stability. The policy shift will afford the Fed the flexibility in how it responds to inflation by allowing inflation to run above 2% following periods when inflation has run below the Fed's stated 2% target. In other words, rather than a stringent and targeted 2% inflation target, the Fed now will use "average inflation targeting" – focusing on an average inflation rate of 2% over time. Two points to close with; (1) inflation expectations (by the Cleveland Federal Reserve Bank's own models[10]) are well anchored below 2% anywhere from 1 year to 30 years forward and (2) the result of policy shifts reinforces the likelihood of extended periods of ultra-low interest rates even if (or when) inflation breaches 2%.

CHART OF THE WEEK



Source: Clearstead, Federal Reserve Bank of Cleveland – Inflation Expectations, last update 12-August

The Cleveland Fed's model of inflation expectations combines treasury data, inflation data, inflation swaps, along with survey-based measures into estimates for average expected inflation rates for 1 to 30 years forward.[10] Current inflation expectations are below the Federal Reserve Bank's 2% target across all horizons.

Carl Tippit, CFA
Head of Investments
Clearstead

Aneet Deshpande, CFA
Chief Strategist
Clearstead

[9] *Federalreserve.gov*
[10] *https://www.clevelandfed.org/en/our-research/center-for-inflation-research.aspx*