

OBSERVATIONS

- COVID-19: Recent stability data shows the Pfizer/BioNTech vaccine may not require ultra-cold storage (-60C to -80C). The study demonstrated that the shot may be kept in standard medical freezer temperatures for up to two weeks – the development should help in speeding distribution.¹
 - As of 22-Feb, 204.8 million doses have been administered across 101 locations. The U.S. has administered 63.1 million doses, averaging nearly 1.33 million doses per day last week.²
- Japan's Nikkei 225 Index (*price-weighted equity index of 225 Japanese companies*) surpassed 30,000 for the first time since 1990 – a round trip that includes a peak-to-trough decline of over -75% from March 1990 thru March 2009.³
- Electronics have been an increasingly key input into automobile manufacturing and global semiconductor shortages are now estimated to negatively impact auto sales volumes by over \$60bn.³
- J.P. Morgan's gauge of fear/greed based on valuations, positioning, and momentum approached its highest level in nearly two decades (since the dot-com era) indicating significant greed (or not enough fear).³
- Last week's arctic blast sent natural gas production plunging to 3-year lows as temperatures and weather conditions triggered blackouts and caused pipeline freezing forcing natural gas plants to shut down.³
- Amidst the housing and remodeling boom, lumber futures have now climbed 47% in recent weeks to over \$980 per thousand board feet – more than two times the price from a year ago and near the peak set in September 2020.⁴
- The White House extends federal moratorium, by three months to 30-June, on foreclosures for homes with federally backed mortgages.³
- After peaking at \$18.4tn in early December 2020, the amount of negative yielding debt around the globe has declined by nearly \$4tn to \$14.6tn as interest rates have been on the rise.³
- Thomas Peterffy, CEO of Interactive Brokers, last week made sobering (and perhaps a bit exaggerated) comments related to the manic short squeeze that occurred a few weeks ago... *'What I would like to point out here is that we have come dangerously close to the collapse of the entire system, and the public seems to be completely unaware of that, including Congress and the regulators.'*
- S&P 500 companies hold a record \$2.6tn in cash, the result of strong corporate performance and capital raising (debt and equity) efforts throughout 2020.³

EXPECTATIONS

- 83% of S&P 500 Companies have now reported earnings, 79% of which have beaten earnings estimates – above the 5-year average of 74%. 67 S&P 500 companies are set to report Q4 results this week.⁵
- Minutes from the Federal Reserve's January meeting showed the committee members in consensus with regards to the pace and path of monetary policy: *'The Committee's guidance for asset purchases indicated that asset purchases would continue at least at the current pace until substantial further progress toward its employment and inflation goals had been achieved. With the economy still far from those goals, participants judged that it was likely to take some time for substantial further progress to be achieved.'*⁶

ONE MORE THOUGHT⁷

The Congressional Budget Office (CBO) recently issued its economic assessment with projections for the federal budget along with resulting deficits. The February release is reflective of laws that were in effect as of 12-Jan and do not account for the \$1.9 trillion stimulus package – discussions are now ongoing. That said, the assessment

¹ <https://www.ft.com/content/919d16c8-0a40-4389-bac9-04a48fdb0a36>

² Bloomberg Vaccine Tracker, Financial Times Vaccine Tracker, Johns Hopkins Coronavirus Center

³ Bloomberg LP

⁴ WSJ

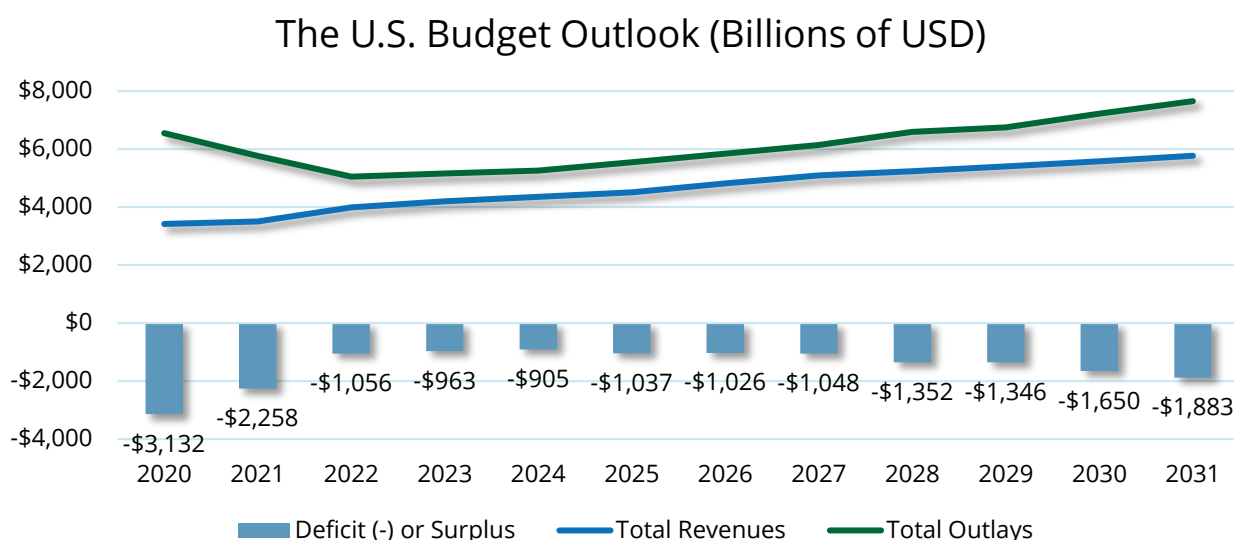
⁵ Factset Earnings Insight, 19-Feb

⁶ Federal Reserve

⁷ The Budget and Economic Outlook: 2021 to 2031; Congressional Budget Office, <https://www.cbo.gov/system/files/2021-02/56970-Outlook.pdf>

presents a number of data points that would likely only increase in magnitude once the stimulus package is passed. Current projections are for a budget deficit of nearly \$2.3tn for 2021 (**Chart of the Week**), or 10.1% of GDP, which stands as the 2nd highest in post war history behind 2020's 14.9% deficit to GDP. The deficit is expected to reach \$1.9tn by 2031, which is estimated to be 5.7% of GDP by that time. This exceeds the 50-year average deficit-to-GDP of 3.3% by +2.4%. As it relates to the economy, the CBO now estimates that GDP will increase by +3.7% in 2021, while reaching pre pandemic levels by mid-year. The federal debt, which stood at 100% of GDP at the end of 2020, is expected to reach 102% of GDP by end of 2021. By 2031, federal debt as a percentage of GDP is estimated to equal 107%, the highest in this country's history and relatedly the yield on the 10-year treasury is forecast to rise to 3.4% (the current yield on the 10-year U.S. Treasury stands at 1.34%⁸), also by 2031. Again, none of the former data account for the proposed \$1.9tn stimulus package. Further stimulus will likely increase deficits in the near term, beyond the current CBO estimates, as a result of outlays increasing more than projected increases in revenues – the attempt to close this gap will likely be taken on in short order with tax reform. Perhaps most importantly will be the combined impact of stimulus and tax reform on the longer-term growth potential of GDP. One thing seems certain, significant long-term deficits are likely here to stay.

CHART OF THE WEEK



Source: Clearstead, 'The Budget and Economic Outlook: 2021 to 2031'; Congressional Budget Office, Data retrieved from <https://www.cbo.gov/data/budget-economic-data#3>

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⁸ Bloomberg LP, as of 19-Feb