

OBSERVATIONS

- COVID-19: During last week's G7 summit, the U.S., Canada, France, Germany, Italy, Japan, and the U.K. pledged to donate at least 1 billion vaccinations to the world's poorest nations.¹
- MicroStrategy (MSTR) – a publicly traded software company - borrowed \$500 million with the sole intention of acquiring more Bitcoin. This marks the first ever junk bond sale used to finance a cryptocurrency purchase and brings MSTR's bitcoin holdings to nearly \$3.3 billion.¹
- Luxury spending: Supercar manufacturer Lamborghini has nearly sold out of its expected 2021 production.¹
- Retail trading in 2021 in U.S. equities as a percent of total trading volumes exceeds 20%. Retail trading activity for 2021 is on pace to exceed all other calendar years going back at least a decade.¹
- Core CPI reached +0.7% in May on a MoM basis, and similar to April's data, used and new vehicles accounted for 40% of the increase in CPI. *See today's One More Thought for additional insight.*
- After reaching a record trade deficit of \$75 billion in March, the deficit narrowed to \$69 billion in April, new Commerce Department data showed. The narrowing was a result of exports increasing to \$205 billion, the highest since January 2020, while imports fell to \$274 billion.¹
- U.S. initial unemployment claims continued to decline for a seventh consecutive week falling to 376k, which is the fewest unemployment claims since March 21, 2020—the week before pandemic-induced lockdowns became widespread.¹
- The European Central Bank raised its growth (now +4.6% vs +4.0%) and inflation outlooks (now +1.9% vs. +1.5%) for 2021 at its meeting last week but reiterated that it will maintain the current pace of bond purchases and its overall monetary policy stance.²
- President Biden began an eight-day trip to Europe last week, his first foreign trip since assuming office. The trip begins with the G7 conference which is focused on the pandemic and climate change initiatives before attending a NATO summit and an end-of-trip one-on-one meeting with Russian leader Vladimir Putin.³

EXPECTATIONS

- El Salvador becomes the first country to approve Bitcoin as a legal tender. It is estimated that 70% of the country lacks bank accounts with the majority working in the informal economy, making the cryptocurrency a potential solution for financial inclusion according to President Nayib Bukele.⁴
- U.S. Commerce Secretary notes that global semiconductor shortages are expected to last for the next year, while many analysts see shortages lasting through 2022 and into 2023.⁵
- The Senate passed the \$250 billion U.S. Innovation and Competition Act designed to ensure U.S. competitiveness on a global scale, and particularly designed to counter China. The bipartisan bill will support artificial intelligence, robotics, and semiconductor research, among others. The bill now makes its way to the House where the chamber's own version of a similar bill has been introduced.

ONE MORE THOUGHT¹

Last week's inflation reading of 5.0% (3.8% excluding food and energy) was the highest year-over-year reading since August 2008. So where to from here? Bloomberg Economics revisited an inflation model first introduced in a [2005](#)

¹ Bloomberg LP

² <https://www.ft.com/content/6c5c3c9c-e9fb-48a3-97a4-b920f38c5f25>

³ https://www.wsj.com/articles/biden-johnson-to-meet-ahead-of-g-7-summit-in-u-s-u-k-relations-test-11623318427?mod=hp_lead_pos7

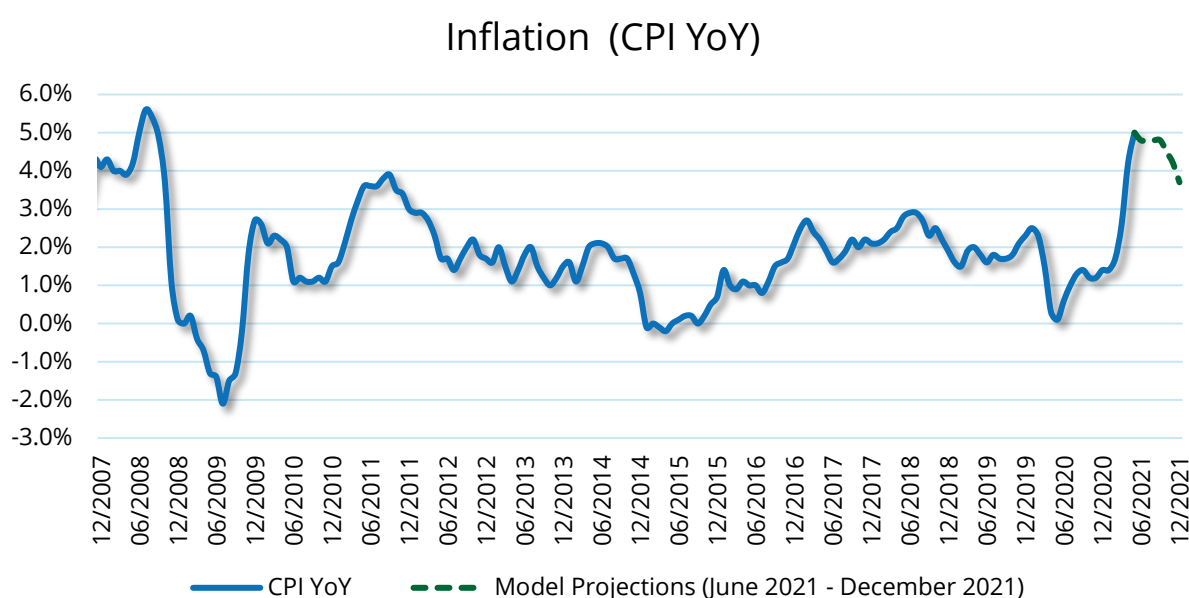
⁴ <https://www.npr.org/2021/06/06/1003755600/bitcoin-cryptocurrency-money-el-salvador>

⁵ <https://www.cnbc.com/2021/06/07/biden-commerce-chief-gina-raimondo-chip-shortage-will-last-for-next-year.html>,

<https://www.cnbc.com/2021/05/12/the-global-chip-shortage-could-last-until-2023-.html>

[paper](#) by former Federal Reserve Chairman Ben Bernanke (et al.). The methodology incorporates a number of variables that include income, industrial production, employment situation, price data, wages, interest rates, money stock, inventories, and housing, to name a few. Bloomberg's calculations suggests that headline inflation is expected to remain near 5.0% for a significant portion of the summer before declining starting in September through the remainder of 2021 (chart of the week) and end the year around 3.7%. This forecast is in line with the Federal Reserve (and our own view) that many of the transitory factors driving short-term inflation higher are likely to begin to ebb in the final months of the year. Of course, no model is perfect, and Bloomberg points out that applying even a modest assumption of error around these expectations could result in CPI peaking well above 5.5%. Regardless of the nuances of the inflation model forecasts, the path of inflation over the next six months will likely add pressure to the Federal Reserve's reaction function as it relates to monetary policy. By December 2021, it is reasonable to expect that inflation (pick your measure) will have averaged above the Federal Reserve's 2% target for nearly 9 months – increasing the likelihood that the Fed signals a change to monetary policy in late 2021 to early 2022.

CHART OF THE WEEK



Source: Clearstead, Bloomberg LP, as of 9-June

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