OBSERVATIONS

- Housing: Purchases of new U.S. homes (*new homes account for 10% of the total market*) fell -5.9% in May from April to an annualized pace of 769k units, this comes as the median sales price on a national level rose to a new record of $374k.[1]
- Capital expenditures (capex) by global non-financial companies are set to grow by +10% in 2021, the highest growth rate in a decade. European companies lead the way with a projected +13% increase in capex, followed by +11% for the U.S., and +9.7% for the Asia Pacific region.[2]
- Initial jobless claims rose modestly to 411k in the latest week, slightly above expectations of 380k. Meanwhile the 4-week moving average remains below 400k for the second consecutive week.[1]
- Goldman Sachs estimates that dividends for S&P 500 companies could grow by 4.5% per year over the next decade, which contrasts with a 3.5% annual dividend growth rate since 2005. The projected dividend yield on the S&P 500 for the next twelve months stands at 1.47%.[3]
- $3.6 billion of bitcoin goes missing from Africrypt (a cryptocurrency investment app). This as the founders have also disappeared after claiming the app was hacked. If unresolved, the loss would stand as the largest crypto heist in history.[1]
- The Bank of England signaled last week that it would not change its dovish stance even as U.K. inflation—like the U.S.— is temporarily above the long-run target.[4] In contrast, Brazil's central bank raised rates in May, and the central banks in Czech Republic, Hungary, Mexico, and Russia each raised rates in June.[1]
- Nearly 20% of the new additions to the Russell 3000 index as of 25-June were companies that went public by using SPACs (the $46.5 trillion market cap index covers 98% of the investable U.S. equity market). Inclusion into the index opens up a potentially larger interest base and highlights the ongoing debate of SPACs role in markets by regulators, investors, and index companies.[5]
- Core personal consumption expenditures (PCE is the Fed's preferred inflation barometer) reached +3.4% in May, in line with expectations and the highest since early 1992.[1]

EXPECTATIONS

- Eurozone composite PMI data (i.e., manufacturing and services business activity) rose to 59.2, a 15-year high, as the economic recovery in Europe continues. The European Central Bank currently estimates Eurozone GDP growth rates of 4.6% and 4.7% for 2021 and 2022, respectively.[6]
- The nation's 23 biggest banks clear the Federal Reserve's stress tests, lifting caps (as of 30-June) on buybacks and dividends that had been in place since the pandemic started. The big six — J.P. Morgan, Bank of America, Wells Fargo, Citigroup, Morgan Stanley, and Goldman Sachs — could pay out over $200 billion back to shareholders between share buybacks and dividends over the coming year.[1]

ONE MORE THOUGHT: U.S. Debt Ceiling Talks Could Go Down to the Wire[7]

U.S. Treasury Secretary Janet Yellen warned Congress last week that the U.S. would likely breach the debt ceiling in late summer if Congress did not act in the next few weeks. In mid-2019, then President Trump worked with

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[1] *Bloomberg LP*

[2] *Fidelity Research, Reuters, Refinitiv*

[3] *Yahoo Finance, Goldman Sachs, Bloomberg LP Dividend Forecast Model as of 24-June*

[4] *FT https://www.ft.com/content/a2df9e5c-2dd4-4295-9938-890329c4e61f; https://www.ft.com/content/c13da04f-b765-4e58-8435-d9cc27d491dc*

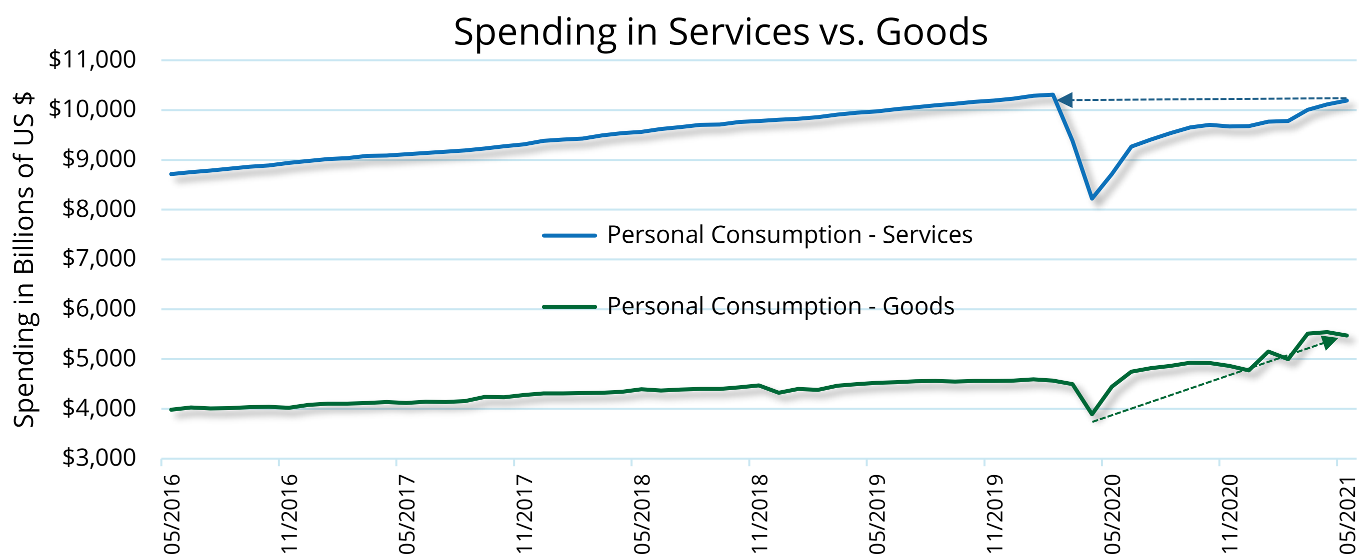
[5] *https://www.ft.com/content/fcbb5f85-d5be-464b-9a99-e10e70f18082*

[6] *CNBC, IHS Markit*

[7] WSJ "Yellen Says U.S. Could Breach Debt Limit Deadline in August if Congress Doesn't Act" 23-Jun-2021

Congress to suspend the debt ceiling until July 31, 2021. However, if Congress does not extend the suspension or raise the limit on the amount of debt the U.S. Treasury can issue, the U.S. government could potentially run out of cash in August and miss payments servicing its existing debt. Earlier this year, Democrats had considered including a debt-ceiling increase in President Biden's $1.9 trillion coronavirus relief package (American Rescue Plan Act passed in March), but ultimately chose not to address the debt ceiling in that bill. The Treasury's ability to keep financing government operations this summer—federal payrolls, social security payments, veterans benefits and interest payments—depends, in part, on the pace of federal tax collection, which have been volatile during the pandemic. Absent Congressional action within the next few weeks, Washington could credibly run short on cash by mid/late August and will have to prioritize payments to bondholders, U.S. retirees and veterans, or curtail government payrolls. While we see the prospect of a U.S. default as a remote possibility, be prepared for some partisan brinksmanship as we head into the dog days of summer before Congress once again averts a worst-case scenario.

CHART OF THE WEEK



Source: Clearstead, Bloomberg LP, as of 25-June, Nominal Dollars Seasonally Adjusted Annual Rate, "Goods" = Durable & Non-Durable Goods

Spending in the post pandemic period has been disproportionally skewed towards goods while spending in the service-related economy (which is a larger portion of the overall economy) has been slower to recover. Spending on goods have risen +19% and services spending is down -1%, from their respective pre-COVID peaks.

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