

OBSERVATIONS

- Lumber prices have now wiped out all of 2021 gains. After reaching a high of \$1,733.50 per thousand board feet, lumber futures are now back to early November 2020 levels (\$520.00 as of 15-July).¹
- Cryptocurrency trading volumes at the largest exchanges dropped -40% in June from May as the Chinese crackdown and ensuing sell off in cryptocurrencies weighed on interest.²
- Japan's government debt is set to exceed one quadrillion yen (¥), that's a **1 followed by 15 zeros** or ¥1,000,000,000,000,000, also equal to \$10 trillion. Yet, even with government debt at over 250% of GDP, Japan is spending no more on interest payments than what it spent during the mid-1980s when government debt was only two-thirds of GDP — thanks to the Bank of Japan's quantitative easing efforts which have kept borrowing costs low (the yield on Japan's 10-yr bond has effectively averaged 0% for the last five years).^{1,3}
- Jobless claims drop to a fresh post pandemic low of 360k, with the 4-week moving average also reaching a new low of 383k.¹
- Headline inflation for June (Consumer Price Index – CPI) increased +0.9% on a MoM basis and +5.4% on a YoY basis — the highest readings for both since mid-2008. Once again, used vehicle prices accounted for a significant amount of the increases in inflation for both time periods (see chart of the week).¹
- Chinese GDP slowed to 7.9% year-over-year (YoY) in Q2-2021, down from the 18.3% YoY growth registered in Q1, but broadly in line with expectations. Q2 was broad-based with retail sales (+13.9% YoY), industrial production (+8.3% YoY) and fixed-asset investment (+12.6% YoY) all registering strong growth.¹
- According to a survey by Bank of America/Merrill Lynch, global fund managers rotated away from commodities and cryptocurrencies and into tech stocks and ESG oriented funds over the past month.⁴
- As inventory rebuilding season approaches, container shipping rates from Asia to the U.S. reached new record levels (and are nearly 240% higher than a year ago) amidst shortages of containers.¹

EXPECTATIONS

- A bumpy ride to nowhere: After rallying nearly 33% from their prior peak reached in February of last year through the end of February of this year, small cap stocks (Russell 2000 Index) have experienced a modest loss of -0.5% from the beginning of March through mid-last week (15-July). Over this recent period, small cap has had five instances of gaining +5.0% or more while experiencing six declines of -5.0% for a net decline of -0.5%. Meanwhile, the S&P 500 has not experienced a -5.0% decline in over 8 months now.¹
- European authorities have begun policy discussions—known as 'Fit for 55' —to enact sweeping new environmental regulations. In play would be an effective ban on gasoline or diesel car/trucks sales by 2035, the introduction of new carbon taxes, and raising the amount of electricity produced from renewables to 40% by 2030. While various stakeholders begin lobbying to strengthen or weaken the proposed laws, Europe is all but certain to enact new "green" regulations and investment initiatives in the coming years.⁵

ONE MORE THOUGHT:¹ *Declining interest rates and a flattening yield curve*

Since the U.S. Treasury 10-year bond reached its 2021 high of 1.74% on March 31 of this year, its yield has declined to 1.30% (as of 15-July). During this same time frame the U.S. Treasury 2-year yield has risen from 0.16% to

¹ Bloomberg LP

² <https://www.cnbc.com/2021/07/12/cryptocurrency-trading-volume-plunges-as-interest-wanes-following-bitcoin-price-drop.html>

³ https://www.wsj.com/articles/governments-world-wide-gorge-on-record-debt-testing-new-limits-11626106592?mod=hp_lead_pos5

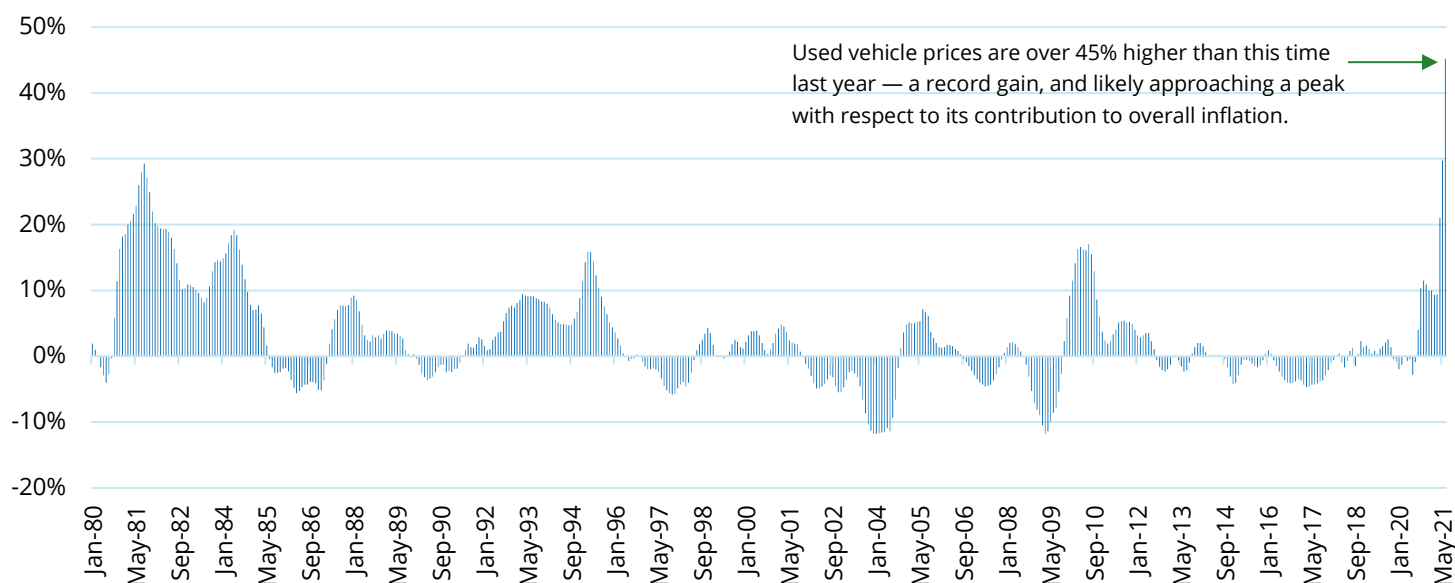
⁴ BofA Global Fund Manager Survey July-2021, ESG = Environmental, Social, and Governance

⁵ Bloomberg Green Daily 15-July-2021

0.23%. This movement in interest rates is what is referred to as a “flattening yield curve” and it reflects bond market investors’ views on the economy. First, the rise in short-term rates reflects the market’s belief that the Federal Reserve will soon begin the process of reducing the monetary accommodation that has been in place since the onset of the COVID-19 pandemic in early 2020, which will lead to higher short-term interest rates. Second, the decline in the 10-year yield reflects the bond market’s belief that inflation is not a long-term problem, and that a less accommodative Fed will lead to slower economic growth. In summary, a flattening yield curve can indicate economic weakness. Bond investors are a fickle crowd and are prone to change their opinions quickly and often; but, at this moment, their actions reflect a resumption of a slow growth and low inflation environment.

CHART OF THE WEEK

12-Month % Change in Used Cars & Truck Prices



Source: Clearstead, <https://www.bls.gov/opub/ted/2021/consumer-prices-increase-5-0-percent-for-the-year-ended-may-2021.htm>

Core inflation readings (CPI) reached +0.9% MoM and +5.4% YoY, both exceeding expectations. Once again, used vehicle prices represented a significant portion of this measure of inflation — accounting for over a third of the month over month figure and over a quarter of the year over year figure, respectively.

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