

## OBSERVATIONS

- COVID-19: Moderna cited 100% effectiveness in a study of younger patients, aged 12-17. The company plans to file for emergency use authorization in early June.<sup>1</sup> New cases in the U.S. have dipped below 30,000 (rolling 7-day case count), 11-month lows.<sup>2</sup>
- Amazon announces acquisition of MGM Studios, the estimated \$8.45bn deal would be the largest deal completed by Amazon since the \$13.7bn acquisition of Whole Foods Markets in 2017.<sup>3</sup>
- Leverage in China's corporate bond sector: China's corporate bond debt coming due in the next 12-months tallies \$1.3tn, that is 30% and 63% higher than U.S. and European companies, respectively.<sup>1</sup>
- Junk bond issuance reached a record for the month of May, the \$45bn issued thus far in May eclipses any other May in past.<sup>1</sup>
- Nationally, the median price for a new home rose +20.1% from this time last year to \$372,400, while the median price for existing homes jumped to \$341,600, +19.1% higher than this time last year.<sup>4</sup>
- Initial weekly unemployment claims reach a fresh post pandemic low of 406k.<sup>1</sup>
- April durable goods orders fell by -1.3% compared to last month in large part due to lower production in the auto sector—constrained by a shortage of semiconductors—however, durable goods ex transport (excluding autos) actually rose by 1.0%.<sup>5</sup>
- Big oil under climate change pressure: Royal Dutch Shell ordered by Dutch court to cut its emissions 45% by 2030, greater than the company's plans of cutting emissions 20% by the end of the decade. Meanwhile activist shareholders won two seats on oil giant Exxon Mobile's board while Chevron shareholders voted for a proposal to cut emissions.<sup>1</sup>
- Core Personal Consumption Expenditures (PCE) rose +0.7% MoM (the largest MoM increase since October 2001) and +3.1% YoY (the largest YoY increase since July 1992) – largely due to the base effects of a closed economy. *PCE is the Federal Reserve's preferred measure as it relates to monetary policy.*<sup>1</sup>

## EXPECTATIONS

- Real-time indicators of job growth suggest the May employment report is likely to be better than the tepid (+266,000 jobs) April jobs report. Data from Homebase—a small business payroll provider—through mid-May suggests more hiring than in April, but the odds are low for a blockbuster report relative to the current expectations for about 650,000 new jobs created in May. May's employment report is due on 4-June.<sup>1</sup>
- Mexico's most recent March retail data (+3.6% MoM) shows the Mexican economy is gradually recovering; aided, in part, by an improving U.S. economy, declining Mexican COVID cases, and steady remittances from Mexicans living abroad. Consensus expectations are for +4.8% real Mexican GDP growth in 2021.<sup>1</sup>

## ONE MORE THOUGHT:<sup>6</sup> *What happens when the stimulus stops?*

Economic activity, as measured by GDP, has now recovered to a new all-time high. Though, once excluding the impact of government-based subsidies (aka transfer payments), GDP is nearly 15% lower than its prior peak. Similarly, real personal income—a measure of household spending capacity—is over 27% higher now than it was in February-2020. However, if you remove government transfer payments it is -1.2% below pre-COVID levels. While

<sup>1</sup> Bloomberg LP

<sup>2</sup> <https://www.wsj.com/livecoverage/covid-2021-05-24>

<sup>3</sup> CNBC

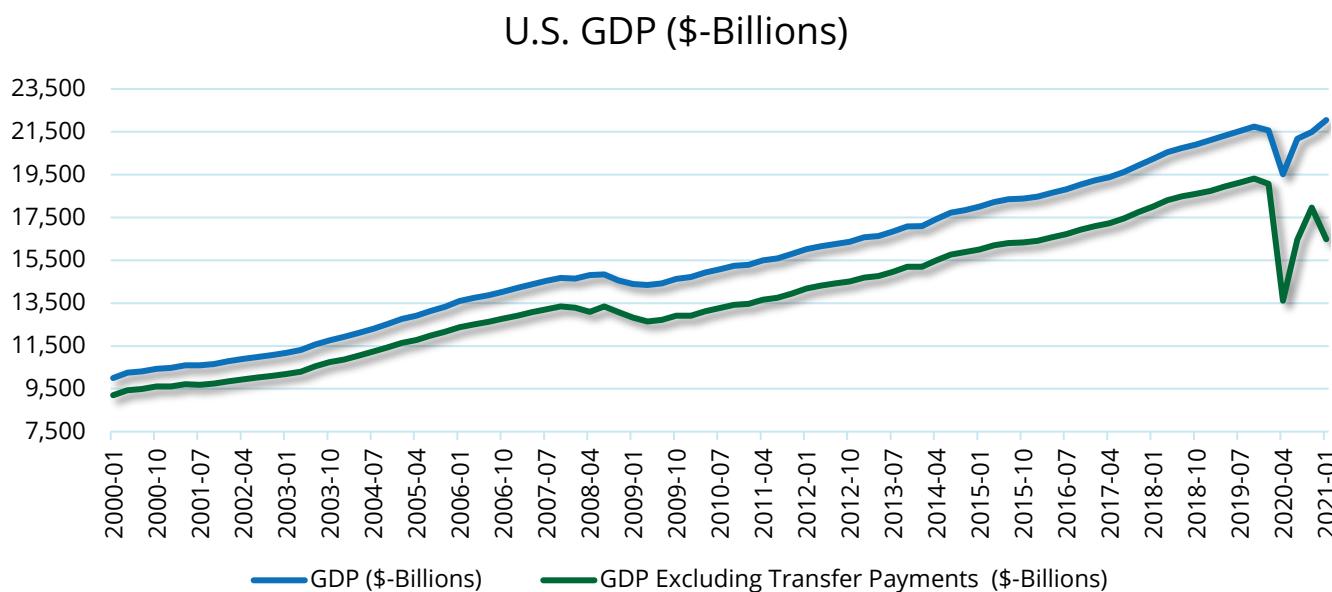
<sup>4</sup> <https://www.wsj.com/articles/u-s-home-price-growth-accelerates-in-march-11621947742>

<sup>5</sup> <https://www.census.gov/manufacturing/m3/adv/pdf/durgd.pdf>

<sup>6</sup> Department of Labor, Department of Education, Census Bureau, Bloomberg LP, Federal Reserve Bank of St. Louis

many press reports have touted the notion that many households have seen their incomes supplanted in recent months by government stimulus measures—child tax credits, stimulus payments, or extra COVID-unemployment funds—there has been little press given to latent liabilities that have accrued since the pandemic began. For instance, \$1.7 trillion in student loans were put into forbearance by the CARES Act in 2020 and that forbearance was extended by President Biden until September 31, 2021. Afterwards, unless another extension is provided, over 40 million Americans will once again have to begin making payments. Similarly, the U.S. Census Bureau reports that at least 10 million Americans are behind on their rent and Mortgage Bankers Association reports that 4% of all mortgages are delinquent. Several states have already decided to forgo the additional unemployment compensation monies beginning this June, in an effort to entice more of the unemployed back into employment. Most other federal COVID stimulus payments are set to expire in September. Once these temporary funds and programs are gone, most American household balance sheets are likely to show that America—post-COVID—is no richer than it was heading into the pandemic.

#### CHART OF THE WEEK



Source: Clearstead, h/t Hussman Funds, U.S. Bureau of Economic Analysis, Federal government current transfer payments: Government social benefits: to persons [B087RC1Q027SBEA], retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/B087RC1Q027SBEA>, May 25, 2021.

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