

OBSERVATIONS

- Weekly initial unemployment claims declined to 310k a decrease of 35k from last week's figure, while the 4-week moving average declined to 339k — both fresh post-pandemic lows.¹
- Bitcoin (BTC) has its sixth worst day of the year after a nearly -10% decline last Tuesday (7-Sept), which also marked the first day of BTC's legal tender status in El Salvador. Still the cryptocurrency is up over 50% since reaching its 2021 lows back in early July.¹
- The Bureau of Labor Statistics reported a record number of job openings in July at 10.9 million. The same report indicated the number of voluntary separations (quits) was 3.977 million, just below the April record of 3.992 million quits and the second highest reading since the data began being collected in 2000.²
- The Fed's beige book noted that "economic growth downshifted slightly to a moderate pace in early July through August," driven by rising Delta variant covid cases as well labor and supply-chain disruptions in select sectors.³
- Chinese exports jumped +15.7% YoY in August well above analysts' expectations and nearly double the 8.1% YoY growth rate recorded in July. Imports also surprised to the upside suggesting that the Chinese economy is moving past supply-chain disruptions and floods that has been hobbling its tradable sector.⁴
- The European Central Bank (ECB) announced that it would conduct purchases under its pandemic bond buying program at a "moderately lower pace" in future than it has over the past six months reflecting the improving European economic and financial conditions. The ECB stressed, however, it could increase asset purchases if the outlook worsens.⁵
- Investment grade bond issuance surpassed the \$1.0 trillion mark last week and is on pace for pre-covid level like volumes, though likely far behind the record setting \$1.9 trillion issued in 2020.⁶

EXPECTATIONS

- German federal elections will be held on 26-September, ending the Premiership of Angela Merkel, currently Europe's longest head of government. Polls increasing show Germany's center-left Socialist party (SPD) leading Merkel's center-right CDU party and both of these parties followed by Germany's Green party, which suggests a center-left government led by the SPD and the Greens.⁷
- Japanese PM Yoshihide Suga—whose approval ratings have plummeted over the summer—announced in early September that he would not run for re-election to president of his party (LDP) in November to focus his efforts on combatting the coronavirus. This announcement sets the stage for LDP to elect a new chief—top contenders are Japan's vaccine czar Taro Kono or its Foreign Minister Fumio Kishida—on 29-September and then lead the party in new elections in November.⁸

ONE MORE THOUGHT¹ – *Tapering isn't tightening, nor do we think it will spark bond market volatility*

The idea that the Federal Reserve is closing in on reducing the size of its massive \$120 billion bond buying program (aka QE) has many market observers wondering of the potential for an uptick in volatility in bond markets. The short answer, from our point of view, is no. Many are reflecting back to the 2013-2014 episode, now known as the 'taper

¹ Bloomberg LP

² <https://www.bls.gov/news.release/jolts.nr0.htm>

³ <https://www.federalreserve.gov/monetarypolicy/beigebook202109.htm>

⁴ <https://chinalastnight.com/2021/09/07/export-import-data-and-internet-rally-lead-hong-kong-higher/>

⁵ <https://www.ft.com/content/e8a78a9f-8e81-403a-a1be-9ad8e6199e72>

⁶ <https://www.sifma.org/resources/research/us-corporate-bonds-statistics-us-corporate-bonds-statistics-sifma/>

⁷ Politico.eu as of 10-Sep-2021

⁸ <https://www.ft.com/content/4cb5f842-2fc6-4081-a453-e58eee3bf438>

tantrum' (see **Chart of the Week**) as a means for setting a basis of expectations. The most notable difference between then and now is the volume and general clarity of communications from the Fed today as they set market expectations. Contrast that with 2013 where the Fed embarked on a tapering process without historical precedent. The bond market did not take the cadence or communication strategy lightly and 10-year U.S. Treasury yields responded in kind – resulting in the 'taper tantrum'. Important to note that, most of the volatility occurred in bond markets and was directly linked with Fed policy communication, or lack thereof. Once the Fed commenced tapering of its bond buying program, interest rates fell, while stocks advanced by over +10%. Today, we expect the Fed to maintain its transparent and data dependent stance on policy and policy communications — some of which can be credited to lessons learned during the 2013 period. Volatility in bond markets, when we do get it, is more likely a result of other variables rather than a tapering of the quantitative easing program. Lastly, it is important to point out that tapering doesn't mean tightening, as evidenced during the ten months of tapering in 2013-2014 bond yields fell. While it's difficult to predict the path of interest rates we do not view the likelihood of a 2013 'taper tantrum' style outcome in bond markets as being high.

CHART OF THE WEEK



Source: Clearstead, Bloomberg LP, Daily S&P 500 price, daily 10-yr U.S. Treasury yields

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