

OBSERVATIONS

- The headline inflation (CPI) figure topped +7.5% year-over-year (YoY) in January, while the core-CPI (excluding food and energy) rose +6.0% YoY. These are the largest YoY inflation figures since 1982. Over the past 12 months both gasoline and used car prices are up 40% YoY—these two categories alone accounted for 41% of the +7.5% YoY CPI figure.^{1, 2}
- The nearly 40-year high inflation reading spooked fixed income investors last week as U.S. Treasuries sold off and the yield on the 10-year U.S. Treasury closed above 2.0% for the first time since August-2019. Meanwhile, 2-Yr U.S. Treasury yields reached 1.5% for the first time since before the pandemic began and markets are now pricing in 6 to 7 quarter point interest rate hikes in 2022 alone.²
- Final figures for trade in 2021 released last week showed the trade deficit increased by +27% from the prior year to a new record high of \$859.1 billion, however at 3.7% of GDP is less than the prior record set in 2006 of \$763.5 billion when the deficit registered 4.6% of GDP. Meanwhile, for 2021, the deficit with China reached \$355.3 billion, still well below the all-time high trade gap in 2018 of \$418.2 billion.³
- Oil prices have moved steadily up since the end of November when West Texas Intermediate crude sold for just over \$65 per barrel and has now reached \$93 on the heels of mounting Russian-Ukraine tensions.²
- Meanwhile, energy expenditures for the typical household as a share of total spending have moved up to 4.3% about on par with spending patterns in the years before the Covid pandemic started in March-2020.⁴

EXPECTATIONS

- Equity markets continue to be volatile, last week the S&P 500 lost -1.8%, and while the S&P is +4.2% above the intraday lows reached on 24-Jan, we would expect volatility to remain high and cannot rule out the potential of a test of those 24-Jan levels in coming days.²
- Easing in supply chains imminent? According to Bloomberg, references to the words “supply constraints” during S&P 500 company earnings calls are pacing below prior periods and the six-month moving average of the data looks to have peaked in October 2021.²
- Canadian protesters briefly closed the Ambassador Bridge—the bridge connecting Windsor, Canada to Detroit, Michigan and the conduit for about 30% of the \$600 billion in annual U.S.-Canada trade—over Canada’s mandate for cross-border truckers to be vaccinated. Meanwhile, Canada’s capital, Ottawa, has been brought to standstill as the truckers’ protest moves into its third week, which has clogged the city center with over 500 long-haul trucks. Canada has one of the highest vaccination rates in the world—with 85% either fully or partially vaccinated—and while the protests continue the Canadian government looks unlikely to back down.⁵

ONE MORE THOUGHT: ⁶ *New Fed Appointments; Known Voting Members*

In November-2021, President Biden renominated Jerome Powell to serve another 4-year term as chairman of Federal Reserve. Biden also nominated existing Fed Governor, Lael Brainard, to serve as Vice Chair of the Fed in the aftermath of the retirement of former Vice Chair Richard Clarida. Both Powell and Brainard were confirmed by the

¹ Bureau of Labor Statistics Consumer Price Index Summary, 10-Feb

² Bloomberg LP

³ <https://www.wsj.com/articles/economic-recovery-pushes-2021-u-s-trade-deficit-to-record-level-11644328979>

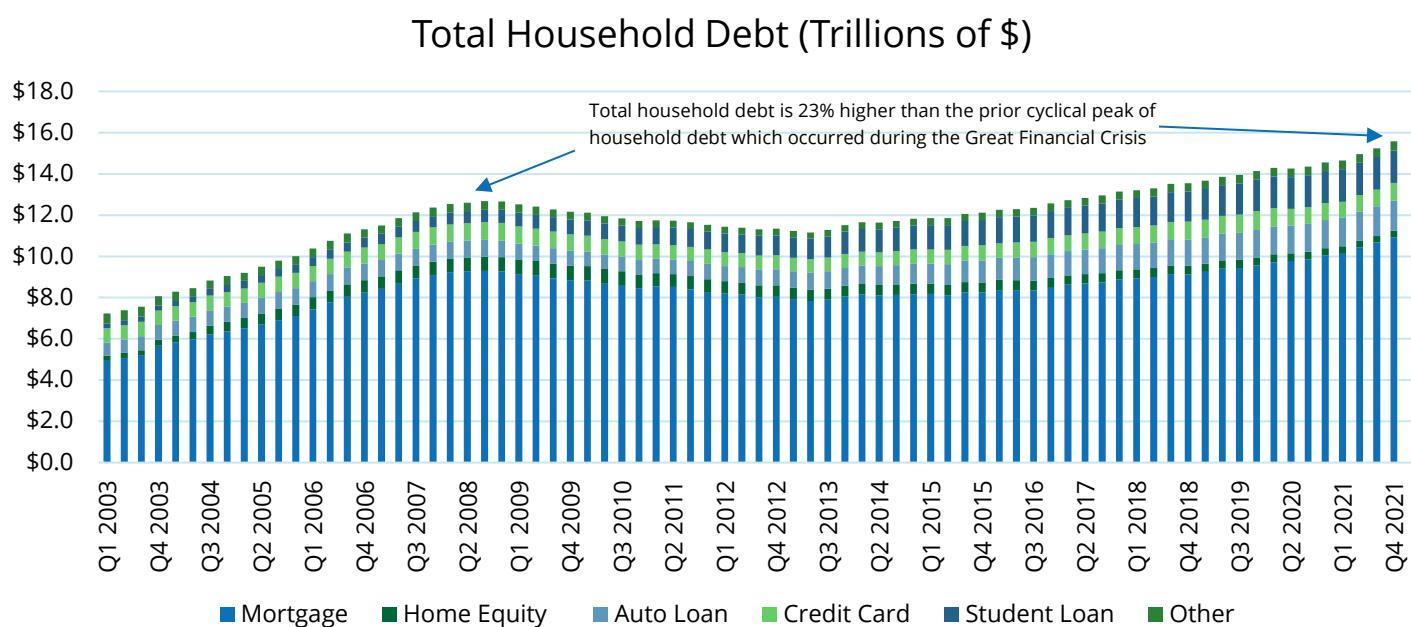
⁴ <https://www.bea.gov/sites/default/files/2022-01/p1221.pdf>

⁵ <https://www.wsj.com/articles/covid-vaccine-protests-disrupt-traffic-on-u-s-canada-bridge-11644351229>

⁶ <https://www.federalreserve.gov/monetarypolicy/fomc.htm>

Senate in January and at the same time Biden nominated Sarah Raskin to replace the newly retired Randal Quarles as the new Vice Chair for Supervision—the Fed Governor that sets the regulatory agenda for the Fed. Biden also nominated academic economists Lisa Cook and Phillip Jefferson to fill the final openings on the board created by the elevation of Brainard and the vacancy originally created by Janet Yellen's retirement. The Senate looks to confirm Cook and Jefferson in the coming weeks, while the nomination of Raskin has faced more scrutiny and her path to a speedy confirmation is less clear. While several of these Fed Governors will be new to the Fed, the current line-up of voting members Powell, Brainard, Bowman, Waller, Williams (New York), Bullard (St. Louis), and Mester (Cleveland) have all been part of the Fed for several years and have been party to the Fed's most recent pivot to curtail monetary stimulus and begin hiking the Fed Funds rate.

CHART OF THE WEEK



Source: Clearstead, New York Fed Consumer Credit Panel/Equifax, as of 31-Dec-2021

Total household debt increased by +\$1.02 trillion to \$15.58 trillion in 2021 from 2020. Fueled by ultra-low mortgage rates, mortgage activity was the primary contributor to the rise in household debt, rising +8.8% in 2021 and now accounting for 70% of all household debt.

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