MIXED MESSAGES

It was another week of across-the-board gains in equities and most commodities. Leading the pack were crude oil, up 5%, and natural gas, rising 3.72%. Also amongst the top gainers were wheat, corn and soybeans. The notable exceptions were minor losses on the Shanghai and Japanese exchanges, and a down week for gold, silver and the recently "red hot" copper price.

Currently, it is important to keep in mind there are two very mixed messages in the economic world, and which is right in the final outcome may well have a significant impact on financial assets over the next few years.

Inflation: It's here, but the key question is how long will it last – US Policymakers say not long. In a speech last Tuesday, US Fed Governor Leal Brainard insisted the pricing pressures will gradually abate, reinforcing their and the Biden administration view that the broader inflationary trend will be transitory and likely reverse somewhat in subsequent quarters. However, former Treasury Secretary Lawrence Summers stated,"Policymakers at the Fed and in the White House need to recognize that the risk of inflation is now greater than the deflation risks on which they were originally focused, ……. it should now be clear that overheating - not excess slack - is the dominant economic risk facing the U.S. over the next year or two". To add fuel to the inflation fire, Nathan Sheets, former under-secretary at the US Treasury, said, "We are seeing a level of stimulus that is essentially unprecedented in the last 50 years, plus other forms of support for spending. These are really uncharted waters, and while I believe the rate of inflation will dissipate, how sure? ……………… probably 80%, but that is still a pretty fat tail."

The facts are the UN Food and Agriculture Organization's monthly food price index was up 40% in May vs. 2020. The increase brings the key benchmark for internationally traded agricultural commodities to its highest level since September 2011. Goods and services: Kimberly-Clark began June by raising prices on consumer goods by 4% to 9%, Scotts Miracle-Gro will do the same this summer, and Procter & Gamble has said it will increase prices in the fall. Whirlpool and other appliance manufacturers have upped prices by double-digit percentages from a year ago and Costco shoppers will find higher prices by 20% or more for beef and up to 10% for clothing. Last, but by no means least, raw materials like lumber, steel and semiconductors are still near record highs.

You can't say I didn't sound the inflation warning months ago!!

The Economy – starting to slow down? Bond holders were encouraged last week as the new jobs number was only 559,000 in April vs. the 671,000 economists anticipated. Bond yields fell as investors interpreted the lower number as a good sign that the US Fed will not end its stimulus measure any time soon. **As a reminder, the US Federal Reserve currently buys $120 billion worth of bonds per month** . Also last week, President Biden's infrastructure stimulus package was reduced from over $2 trillion to $1 trillion, and Republicans say that is still too high. Whatever number gets finally passed will no doubt have a major effect on the US manufacturing industry. Meanwhile, Wells Fargo Economist, Tim Quinlan, suggests that 4.5 years' worth of spending on travel and services might take place in the next nine months, that could translate into a $2.2 trillion spending boom for hospitality stocks. To me, the US economy remains strong and companies everywhere continue to report the challenge of finding workers. Wage increases are happening across the board, while the unemployment rate for teens is the lowest since 1953!!

And the final ponder of the week – when the US Treasury does eventually end its bond buying program – who will pick up the slack? Foreign purchases of US Treasuries have fallen from some 50% back in 2008 to virtually zero today. What will that mean for US long bond yields and the US dollar?