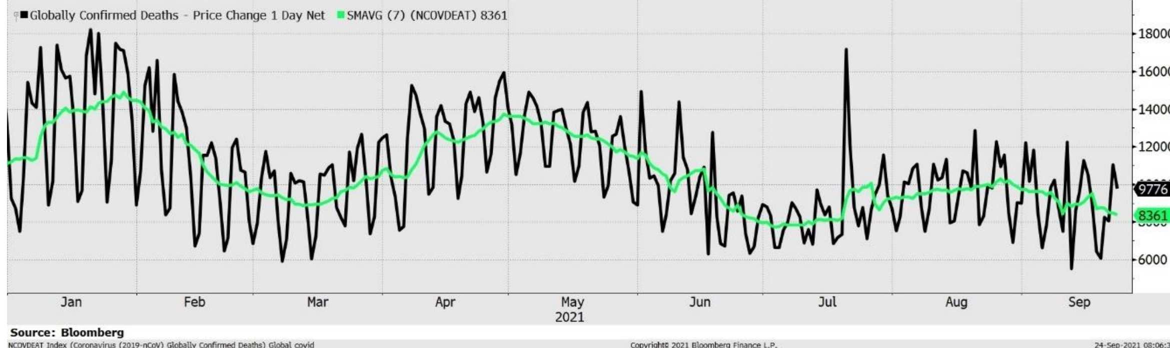
Courier Capital, LLC
Registered Investment Adviser
An affiliate of Five Star Bank

Economic and Market Update – ECONOMIC INDICATOR DELTA (09/30/2021)

Latest Developments and Economics

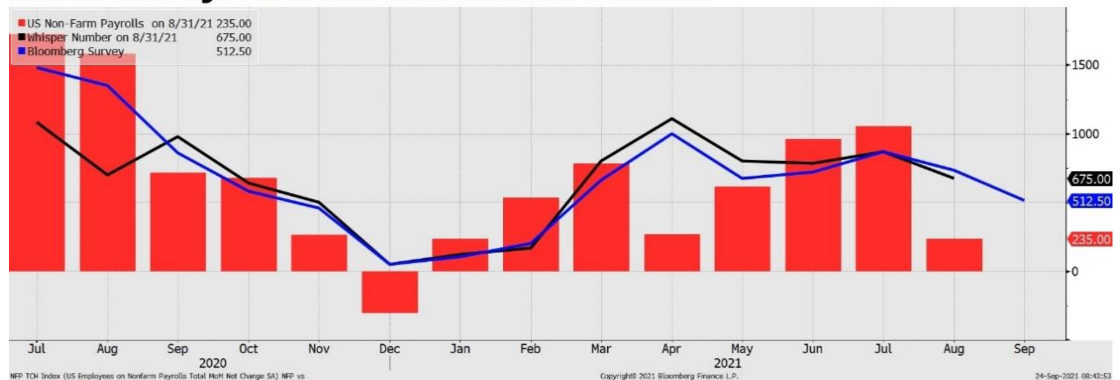
Global Covid Deaths
Trend still improving



Source: Bloomberg

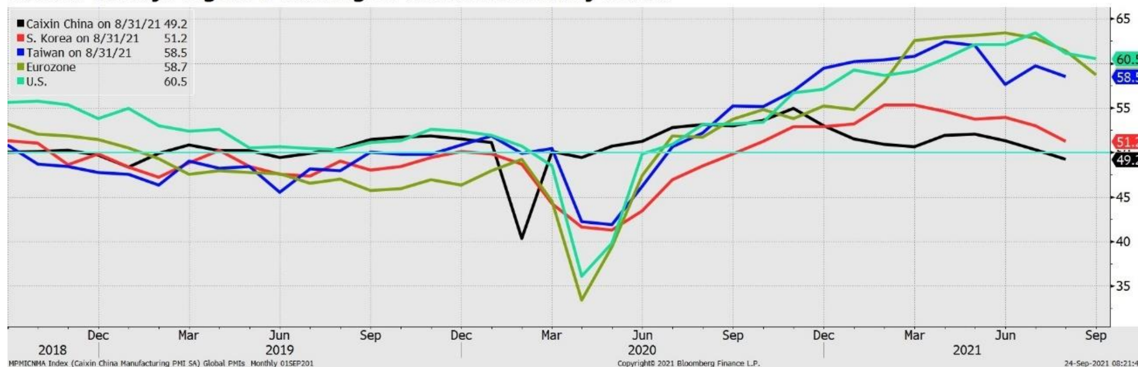
Much of the economic activity in 2021 so far has been tied to our progress on tackling the COVID virus globally. So much that you could see how the economy in the U.S. has moved in line with the COVID cases – it has almost become an economic indicator. In early Spring when the vaccines were being rolled out the economy showed significant recovery. Then the Delta variant became the primary strain and with cases rising the economy slowed. We have seen this in labor data with the latest month showing an addition of 250,000 net jobs in August when 706,000 were generally expected. This is after July was revised up to 1,053,000 net adds in July. The patterns in the two graphs look similar even though the last reading of job openings showed that there were 11 million open positions in the United States.

Nonfarm Payroll Gains Forecasted To Slow

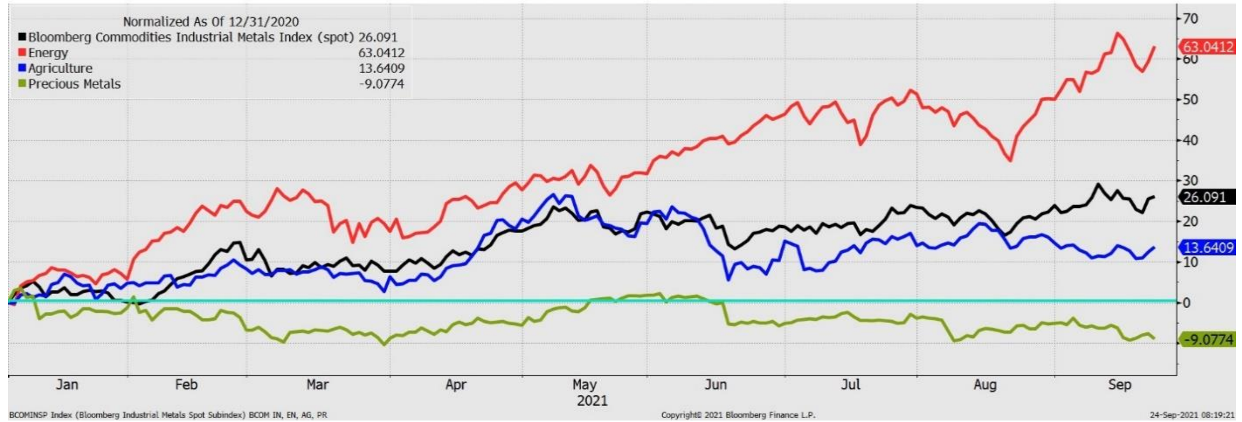


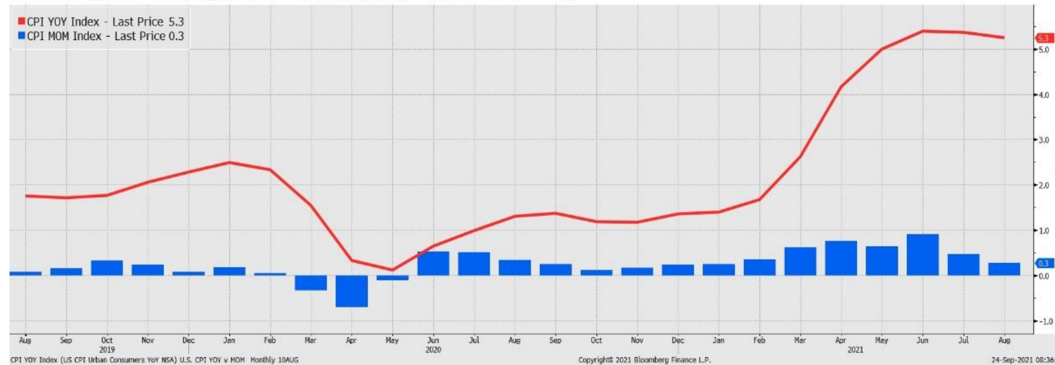
Also, consumer confidence once again unexpectedly dipped in September in both current conditions and future expectations. Globally, we are also witnessing the decline in manufacturing activity as Purchasing Manager Indices (PMI) are turning negative. If expert opinion is correct and the Delta variant cases end up peaking early this Fall, then it may be possible to resume a more vigorous pace in U.S. and global recovery before the year ends.

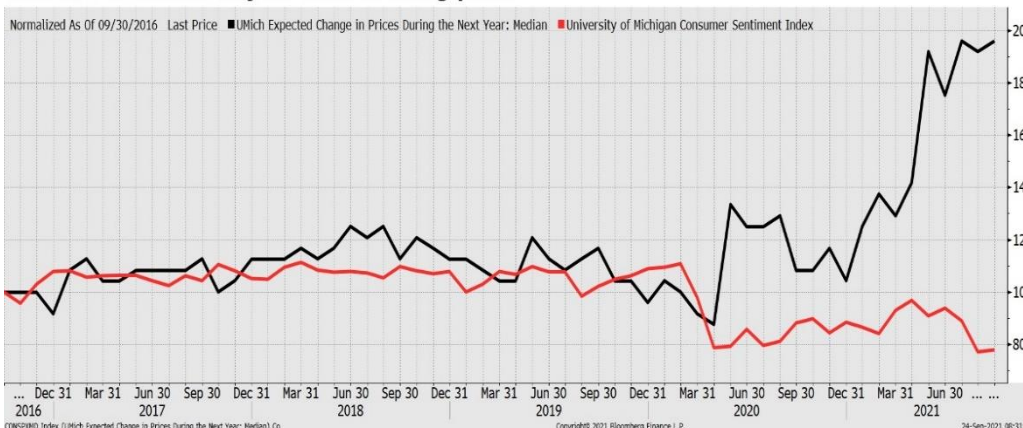
Global Manufacturing PMIs Rolling Over
Recent surveys signal a slowing of economic activity ahead



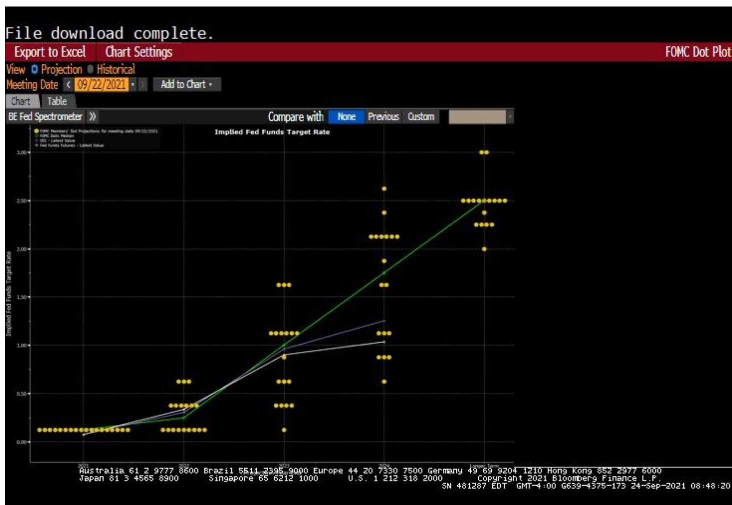
There may be other factors impacting the temperament of the consumer. First would be the decline in fiscal stimulus. It has been some time since consumers received their last checks from the federal government. In addition, the extended supplemental unemployment benefits ended in September so those without jobs right now will be dealing with a different situation. We also have the impact of inflation and expectations about inflation putting consumers in a potentially negative mood. One Inflation source is from the supply chain issues limiting the manufacturing of goods. Shipping costs have also increased exponentially, and input costs are rising generally. We have all seen the increase in prices in service industries due to labor shortages and the same is true in manufacturing due to certain commodities. Aluminum is up sharply while iron ore has fallen. The most significant commodity impact has been in energy where Brent crude oil is near $80 per barrel (first time since 2018) and Natural Gas has nearly doubled. More companies are warning about cost pressures they are experiencing. These costs either need to be absorbed by companies, generally decreasing their profit margins or, passed on to the consumer in some form of higher prices. Jerome Powell, chairman of the Federal Reserve has been a strong proponent of inflation pressure being temporary because of supply chain disruption but even he recently admitted it has gone deeper and longer than expected. The latest reading shows inflation starting to moderate in its rate of increase, but the level is still high at 5.3% year-over-year. In his latest testimony to Congress Chairman Powell has indicated that some of this inflation may be structural (i.e.: more permanent than temporary). This has significant implications. First, the market was not buying into the story that inflation was purely temporary. The chart on the left shows a significant rise in an expected change in consumer prices (black line) and the corresponding decline in consumer sentiment (red line).







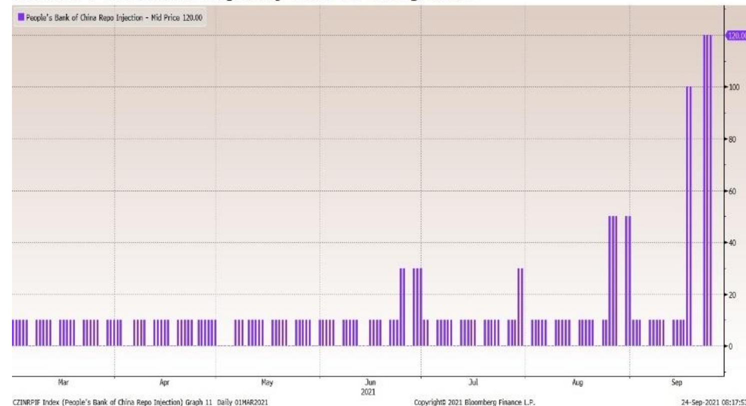
With inflation pressures and expectations increasing together with GDP growth in the U.S. above trend Chairman Powell did indicate that they will start reducing their monthly bond purchases of $120 billion per month before the end of 2021. He plans on reducing around $15 billion per month until finishing by mid-2022. This “tapering” of purchases should have the



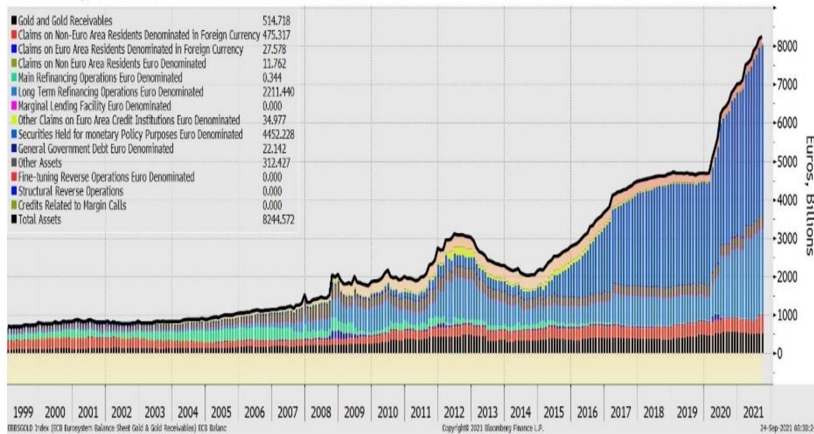
effect of gentle upward pressure on interest rates. Once this is completed then the Federal Reserve expects to actually raise interest rates. The "Dot Plot" to the left shows where the various Fed governors expect interest rates to be in the near future. One can see the dots are certainly rising rather quickly and getting more dispersed. The green line shows the consensus and indicates a rate around 1.00% from the current zero by the end of 2022. What will be important to watch is not as much the direction of interest rates (we know they are going up) but the pace. If it is quicker than the markets expect it could be a source of volatility in financial markets (both equity and fixed income). This month's unexpected increase in the 10-year rate from 1.30% to 1.50% is such an example.

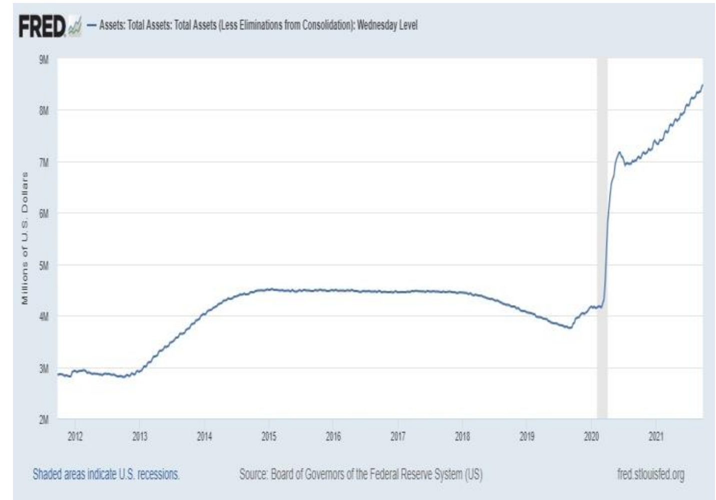
Political events in the U.S. are also in the spotlight as we end September – most of it directly related to the economy. First, Congress looks to have agreed upon a continuing resolution to fund the Federal government through December 3. This is critical as September 30 is the end of the Federal fiscal year and the continuing resolution avoids a partial shutdown of the government (more a political event than an economic event). Second, the plan was to bring the $550 billion (total $1 trillion in spending) bipartisan infrastructure to a vote this week. House Speaker Nancy Pelosi had targeted Monday, then Thursday and now no date. It may be in jeopardy as the Democratic caucus is not in agreement. Moderate Democrats want to vote on the Senate agreed infrastructure bill immediately by itself while progressives do not support it unless it comes with the $3.5 trillion social initiatives that President Biden put forth. Finally, there is political theater around raising (or suspending the debt limit). This is what allows the federal government to borrow more money to pay its bills. Treasury Secretary Janet Yellen has communicated the government would default by October 18 without an increase. Democrats have put forth a suspension of the limit which was rejected by Republicans fearing an "open checkbook" for more spending and have indicated that Democrats can raise the limit on their own through the budget reconciliation process. This will most likely carry into October but, one thing is certain – a U.S. default would be an avoidable catastrophe.

On the international front China seems to be taking up all the air in the room. First, the Chinese real estate developer Evergrande (second largest in China) has already caused market disruption and fear of potential spillover effect. The company currently has over $300 billion in debt and has warned about possible default. They have already missed interest payments on two overseas bonds and have been selling assets to raise cash. Last week they sold a $1.5 billion stake in Shengjing Bank (a state-owned asset manager) and plans on selling 51% of its property services firm. The most recent obligations were a $83 million interest payment and maturity of a $260 million note in the first week of October. Part of the reason for the cash crunch is that the property sales have significantly dropped since June. One concern is for "cross-default" where one default triggers spreads to other broader defaults (this was the case with Lehman in 2008) but foreigners hold only a small share of debt. The bigger risk is the impact on the Chinese economy as the real estate industry accounts for about 30% of the second largest world economy. So far, the Chinese government has not directly intervened but has pumped significant liquidity into the financial system to calm nervous investors as the next few weeks are critical for Evergrande.



The second China issue is in Phase 1 of the 2019 trade agreement negotiated with China. The United States will claim that China is not complying with the agreement which called for purchases of an additional $200 billion in goods over a 2-year period. With only 3 months to go until the end of that period China looks to be about 40% short of the goal. The recommendation will be enforcement which may further strain an already tense situation in U.S.-China relations.

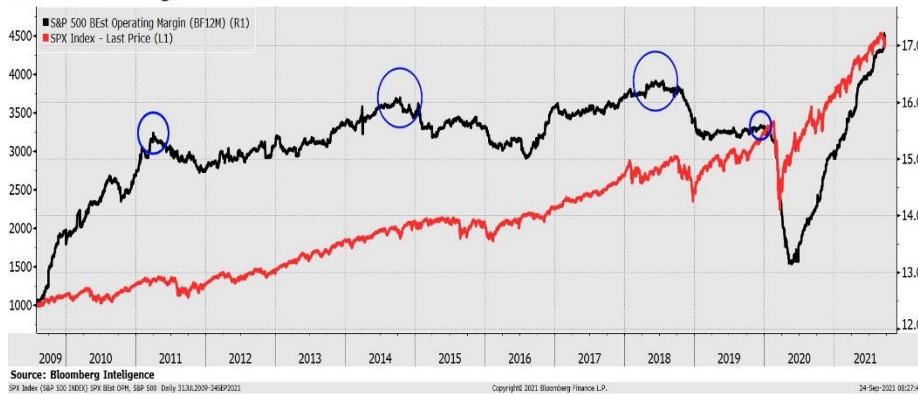




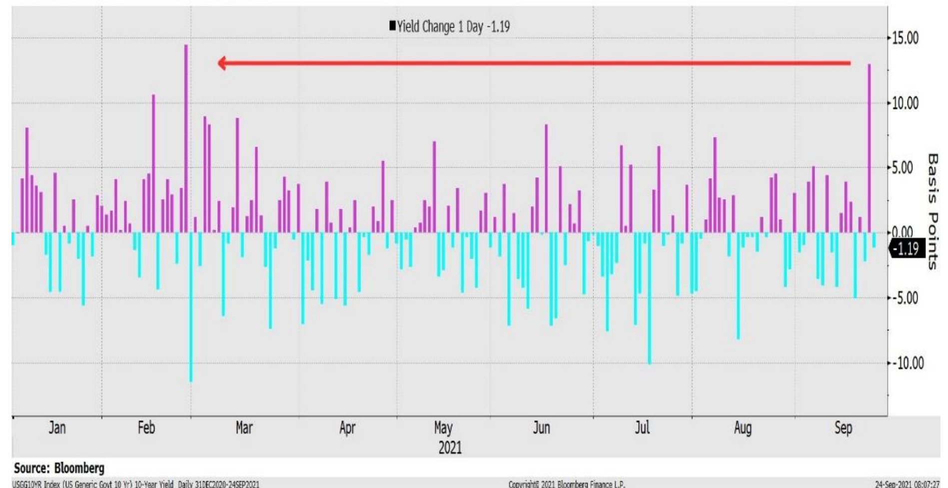
Another item to note is the behavior of some of the major central banks. It seems the European Central Bank (ECB) is following the script of the Federal Reserve. Both have been expanding their balance sheets significantly by buying debt to keep interest rates low. The ECB is up to 8 trillion Euros in a variety of European country debt while the Fed is passed $8 trillion mainly in U.S. Treasuries and Mortgage-backed debt. The unwinding of this in future years will be something on which to keep an eye.

Financial Markets

The Fall is usually a more volatile time for U.S. equity markets and September didn't disappoint. The total return for the month was -4.7% for the S&P 500 and results in a flat third quarter with a 0.6% return. Some of the concern was due to the slowing U.S. recovery as well as a spike in treasury yields mentioned earlier. In an environment of rising interest rates, it is growth stocks that have an outsized reaction. In September growth stocks were down 5.8% though they managed a better 1.9% return for the quarter. In addition, companies are expressing concern about rising cost pressure and extended supply chain disruptions after posting second quarter earnings this past summer that increased at a 16% annual rate due to the recovery. We are still seeing a rather strong consumer sector as well as housing (up almost 20% in one year) and spending are up. If earnings do slow-down in the short term that could also result in another source of market volatility. The Merck announcement of a successful therapeutic for the COVID virus may help to get the recovery back on track and result in continued earnings growth. So, again the course of the virus globally will help determine the near-term pace of the recovery.



A strong economy, significant inflation readings and the speech from Fed Chairman Jerome Powell about ending the extraordinary support soon were enough to send U.S. Treasury yields spiking in September to reach a yield of almost 1.57%. By the end of the month the yields have settled back into the 1.47% range. The other factors that may start to weigh on yields are the negotiations on the spending bills currently going through Congress. The total spending amount of the bills and the political posturing causing a possible snag in the debt ceiling negotiations could cause rates to react. A U.S. default would be an unprecedented event (and not expected) but the closer we get to that eventuality the more there is perceived risk in U.S. fixed income and a resulting increase in treasury yields.



Should you have any questions please contact us.

Image sources: Bloomberg and CNBC unless otherwise noted

Buffalo Office

1114 Delaware Ave.

Buffalo, New York 14209

PHONE: 716-883-9595

Jamestown Office

214 West Fifth Street

Jamestown, New York 14701

PHONE: 716-484-2402

Courier Capital, LLC ("Courier Capital") is an SEC registered investment adviser located in Buffalo, New York and Jamestown, New York. Registration does not imply a certain level of skill or training. For information pertaining to the registration status of Courier Capital, as well as its fees and services, please refer to our disclosure statement as set forth on Form ADV, available upon request or via the Investment Advisor Public Disclosure Website(www.adviserinfo.sec.gov). The information contained herein should not be construed as personalized investment advice or a solicitation to buy or sell any security. Investing in the stock market involves risk of loss, including loss of principal invested, and may not be suitable for all investors. Past performance is no guarantee of future results. This material contains certain forward-looking statements which indicate future possibilities. Actual results may differ materially from the expectations portrayed in such forward-looking statements. As such, there is no guarantee that any views and opinions expressed in this material will come to pass. Additionally, this material contains information derived from third party sources. Although we believe these sources to be reliable, we make no representation as to the accuracy of any information prepared by an unaffiliated third party incorporated herein, and take no responsibility therefore. All expressions of opinion reflect the judgement of the authors as the date of publication and are subject to change without prior notice. Investment products and services are not FDIC Insured, are not a deposit or bank guaranteed, are not insured by any Federal governmental agency, and are subject to investment risks, including possible loss of the principal invested.