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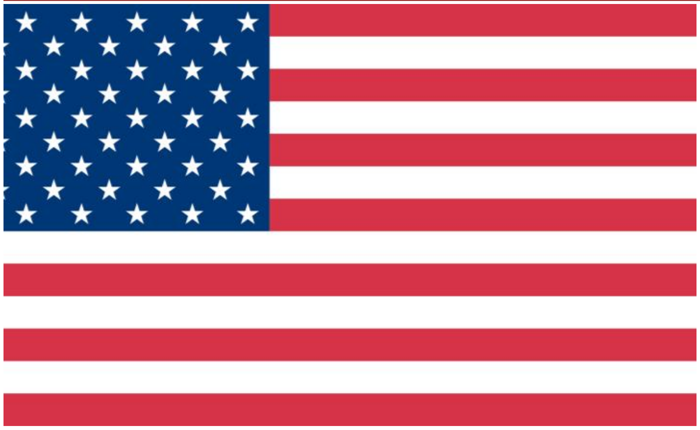
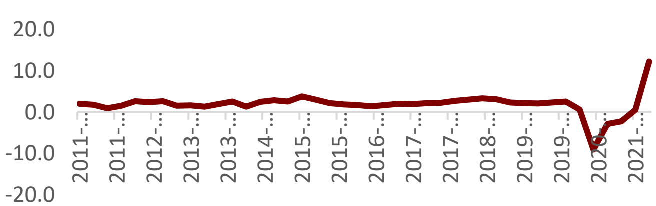
United States Macroeconomic Report



Economic Profile	
Country	United States
Currency	Dollar
Population	331.4 million
Economy	Developed
GDP	$22.73 trillion
GDP per capita	$68,631
Largest Trading Partner	Mexico
Market Outlook	
Point in Economic Cycle	Right of Trough
Outlook	Bullish

Real GDP (Percent Change from Year Ago)



Real Gross Domestic Product, Percent Change From Year Ago, Prev. 10 Years (St. Louis Federal Reserve)

Macroeconomic Thesis:

After researching and analyzing a variety of leading, lagging, and coincidental economic indicators, I believe that the U.S. economy is still right of trough of the business cycle. Moreover, while I am bullish on the long-term U.S. economic outlook, I am anticipating economic growth (especially Q3 2021) to be more sluggish in the short run due to consumers' fears over the Delta variant and inflationary pressures.

From my research of these various economic indicators, despite contradictions within consumer sentiment and consumer spending, I still have a cautiously optimistic outlook on long-term U.S. economic growth. While the unemployment rate and continued claims remain above the pre-pandemic rates, they are continuing to fall. Retail sales and housing construction are still positive. The pace of inflation seems to be slowing down month-to-month since its 13-year high in June, which is encouraging regarding an improvement in real average hourly earnings. While Q3 2021 GDP growth is expected to be around 3 percentage points lower than Q2 GDP, I am optimistic that growth in Q4 and in 2022 will be stronger as supply chain issues are resolved and inflation is addressed.

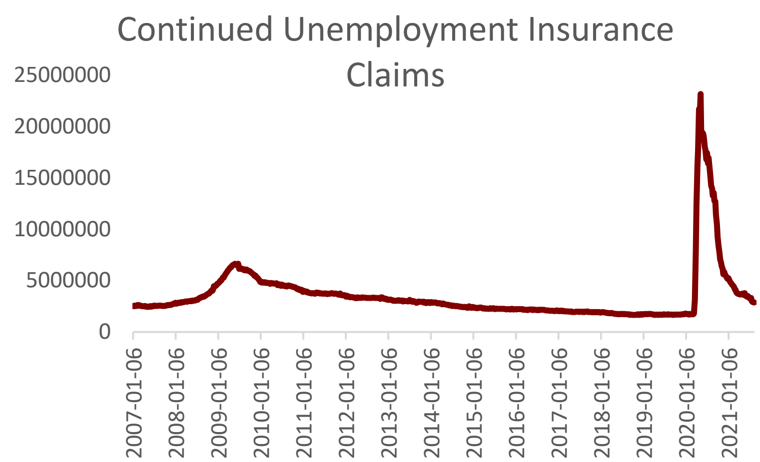
Though the Delta variant continues to threaten U.S. economic recovery, Americans continue to be resilient in navigating the "new normal" since the pandemic. While a booster vaccine has been developed by Pfizer, it was struck down by the FDA 3 days before its release date to the American public. Additionally, President Biden's approval rating continues to fall not only due to his COVID-19 vaccine or weekly testing mandate, but also with how he handled the U.S. withdrawal out of Afghanistan, which may exacerbate an already divided America. Despite these polarizing geopolitical factors, I believe that the American economy will not witness another severe decline in its GDP.

Economic Indicators

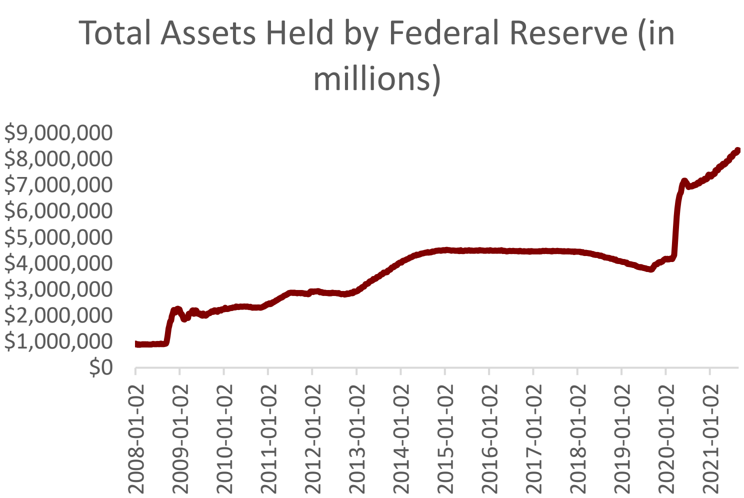
<u>*Unemployment (Continued Claims)*</u>

The unemployment rate is one of the most important indicators of a country's economic health. Though the country's unemployment rate has recovered significantly since its historic high of 14.8% in April 2020, it is not expected to return to its pre-pandemic levels until 2023. In the United States, the Federal Reserve refers to this indicator often when determining the country's monetary policy. Some Fed officials, including Jerome Powell, are hesitant to begin tapering until the labor market demonstrates more progress towards its pre-covid level. While the Delta and Mu variants may threaten the United States' continued job market recovery, weekly jobless claims continue to drop to pandemic lows; this could be the result of individuals returning to work after the additional $300/week federal unemployment benefits ended on September 6 and with no states opting to extend benefits. Thus, the number of workers choosing to return to work must exceed those who choose not to out of fear of the virus.

Unemployment Rate (St. Louis Federal Reserve)



Continued Claims (Insured Unemployment) (St. Louis Federal Reserve)

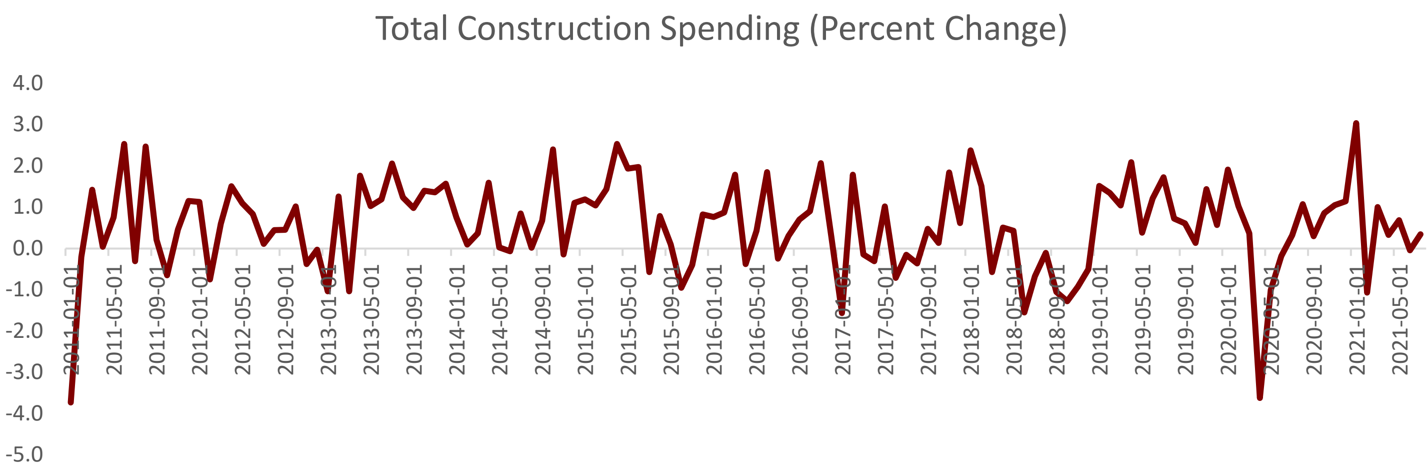


Assets: Total Assets (Less Eliminations from Consolidation) (St. Louis Federal Reserve)

<u>*Federal Reserve Balance Sheet*</u>

The Federal Reserve's balance sheet has grown astronomically since the Great Recession and the subsequent tapering. To stimulate economic activity during the recession due to the COVID-19 pandemic, the central bank implemented even more aggressive QE operations: purchasing $80 billion in Treasuries and $40 billion in MBS per month since July 2020. As a result of the Fed's QE purchases, the balance sheet exceeded $8 trillion for the first time in June. Though no official announcement has been made, a growing number of Fed officials state that it is possible that the Fed will begin tapering its $120 billion monthly purchases this year.

Economic Indicators



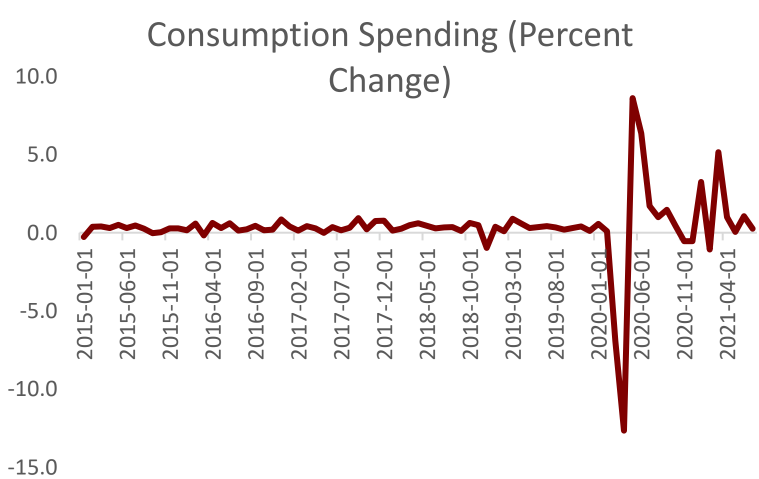
Total Construction Spending, Percent Change (St. Louis Federal Reserve)

Total Construction Spending

One of the most notable leading economic indicators is housing starts. However, due to the current housing market frenzy and increasing number of individuals, specifically millennials, choosing to forego a home in favor of living in an urban environment, a more representative measure that would assess the health of the industries related to housing starts is total construction spending, which includes residential and non-residential construction spending. Although the U.S. economy has experienced significant growth since the Covid recession, construction spending is lagging. While construction spending rose by 0.3 percent in July, this is only because the growth in residential construction exceeded the decline in non-residential construction spending. Although interest rates are still low due to the Fed's sustained QE purchases, bidding wars and increase in the price of homebuilding materials are raising the prices of current and new homes – but individuals/families may be willing to take on more debt to purchase their home. Inflationary pressures, supply-chain bottlenecks, and the Delta variant are likely to blame for the stagnant growth in overall construction spending.

Consumer Spending

Consumer spending is the largest component of GDP – comprising about two-thirds of overall GDP. Thus, this measure is a critical factor to use to examine the current state of the U.S. economy. Consumer spending, which once fueled substantial economic recovery in the U.S., is rapidly slowing down (though still positive) due to the Delta variant and inflation fears. As inflation continues to climb, it is expected that real average hourly earnings will remain negative, which in turn will result in less consumer spending and sluggish GDP growth.

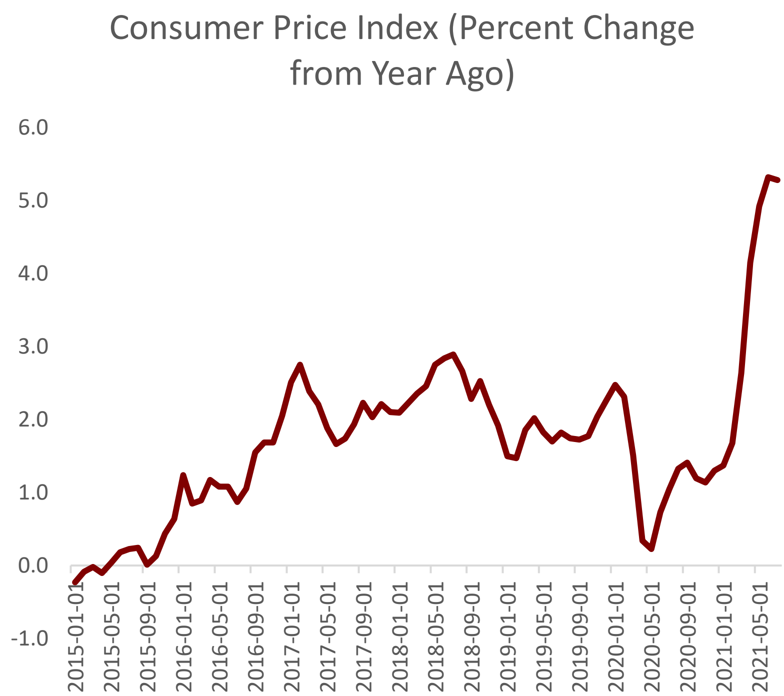


Personal Consumption Expenditures, Percent Change (St. Louis Federal Reserve)

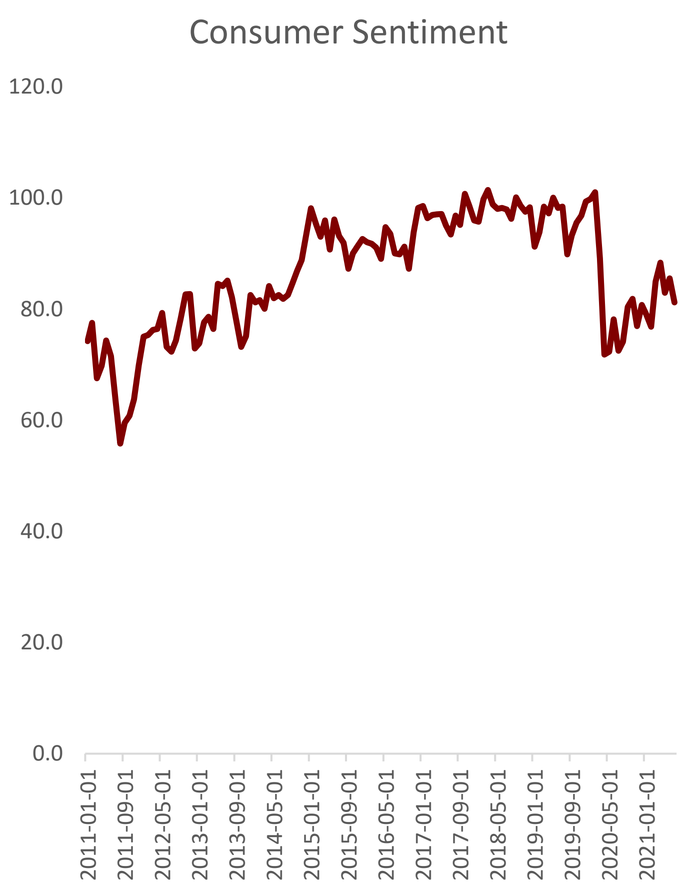
Economic Indicators

Consumer Price Index (CPI)

The CPI is a measure used to identify the level of inflation (or deflation) present in the U.S. It is computed by averaging price changes in a fixed basket of goods and comparing them to determine the increase (or decrease) in the cost of living. The U.S. inflation rate recently experienced a 13-year high, causing some to question the Fed on whether inflationary pressures are truly transitory. However, while inflation is still rising, August CPI data supports the Fed's position on inflation: the 0.3% one-month increase in inflation is the smallest gain in seven months. This may suggest that the inflation surge is finally cooling down.



Consumer Price Index for All Urban Consumers, Percent Change from Year Ago (St. Louis Federal Reserve)



University of Michigan: Consumer Sentiment (St. Louis Federal Reserve)

Consumer Confidence Index (CCI)

Consumer sentiment, also referred to as the consumer confidence index (CCI), indicates how optimistic Americans feel about the U.S. economy. Their confidence in the economy can be measured by the level of their spending and saving. When consumer confidence is high, this implies strong economic growth and consumers tend to spend more. When consumer confidence is low, this implies decreased economic growth and fear of an upcoming recession; thus, consumers tend to save more, which decreases the amount of money circulating in the economy. Though the pace of inflation is showing signs of slowing down, it is not enough to ease Americans' fears about the trajectory of the U.S. economy, especially with increasing Delta variant concerns. The CCI continues to tumble: the preliminary August CCI reading is 70.2 – a pandemic low and about an 11-point drop from July.

Geopolitical Factors

The Delta Variant

Though it has been almost 2 years since COVID-19 was first discovered in China, and with multiple vaccines developed against the virus, the pandemic is still far from over. From consumer sentiment, every month more Americans seem to fear the impact of the Delta variant. Their fears are justified; 1 in 500 Americans have died from COVID-19 since the beginning of the pandemic. The highly contagious and more severe (in terms of illness) Delta variant, coupled with waning vaccine efficacy over time and vaccine hesitancy from many Americans, has led many states (mostly blue states) to reimpose mask mandates and other coronavirus-related restrictions. Many colleges also require students to show proof of COVID-19 vaccination or have an approved exemption and wear masks to attend in-person classes.

On August 23, 2021, the FDA announced full approval of the Pfizer-BioNTech COVID-19 vaccine, paving the way for private employers in all industries to enact a vaccine mandate. Though some employers with vaccine requirements at U.S. offices are allowing employees to work remotely if they decline the vaccine, the remote employee is likely to be forced to accept a pay cut for doing so (a notable example is remote staff for Google, which could face up to a 25% reduction in their salary). Therefore, adults who choose to remain unvaccinated may experience more difficulty in maintaining their current job (if there is no remote option) or finding employment.

Despite FDA approval of a COVID-19 vaccine, vaccine resistance among Americans remains high. Recently, the United States dropped to the lowest vaccination rate out of the G7 countries. In states/parts of states with low vaccination rates, there is a high per capita COVID case rate and vaccination rate and high hospitalization rates; these same areas of the United States are also experiencing overrun hospitals with zero ICU bed availability due to the influx of COVID-19 patients. As a result, many patients – COVID-19 or trauma – are experiencing delays in treatment which may, and has, cost them their life. Hospitals in states such as Alaska and Idaho are forced to ration care: determining who receives life-saving measures (ventilators, etc.) and who does not. Despite overrun hospitals, no state is currently planning to reinstate another stay-at-home order.

President Biden's plan to make Pfizer COVID-19 booster shots available to Americans beginning September 20 was rejected by the FDA September 17, citing a lack of data. There is controversy regarding the need for and effectiveness of a COVID-19 booster shot. Since there is still vaccine resistance among a large proportion of Americans, booster vaccine resistance is expected to be high as well. The coronavirus pandemic is not likely to end anytime soon.

Geopolitical Factors

Inflation

In June 2021, inflation surged to a 13-year high. There are several factors that have been contributing to high inflation: supply chain bottlenecks for raw materials in housing construction, a shortage of workers – especially in the hospitality, restaurant, construction, and retail industries – and the Fed's QE measures infusing liquidity into the U.S. economy. During the stay-at-home orders, demand for home improvement sharply increased. While lumber prices continue to decline from the record high in May, the price of lumber is still significantly higher than its pre-pandemic price. This, in addition to sustained low interest rates, increasing regulatory costs and a shortage of labor, caused the price of building a new home to sharply rise. As a result, the demand for existing homes exceeded the supply, contributing to the housing market boom. However, as Summer is ending, the housing market has been showing signs of cooling.

Many businesses are struggling to hire workers and as a result, are forced to raise wages and/or signing bonuses to attract employees. There is a potential of "wage-push inflation": raising the cost of consumer goods and services to offset the additional labor costs to businesses from the increased wages. Currently, the increase in wages is not enough to keep up with the increased pace of inflation; Americans real purchasing power, even at $15 per hour, is negative.

Despite inflation exceeding the FOMC's target of 2% by nearly 3 percentage points, the Fed still has not begun tapering its asset purchases. Federal Reserve officials disagree with when and how to taper, but a taper announcement is expected in November. The Fed does not expect interest rates to increase until 2023.

The Biden Administration

Between the Delta variant and the botched withdrawal of U.S. troops from Afghanistan that immediately resulted in the Taliban takeover of the country, President Biden's approval rating continues to fall. As of September 14, it is at a low of 42%.

On September 9, President Biden announced a vaccine requirement or weekly COVID-19 testing requirement of unvaccinated workers for all private employers with a minimum of 100 employees, which is to be enforced by OSHA. Many question the legality of Biden's vaccine mandate, and so far, 24 states are threatening to sue over the mandate. However, legal experts believe that attempts to claim the mandate as unconstitutional is likely to fail.

Though the United States officially ended its 20-year war in Afghanistan on August 30, 2021, the withdrawal of U.S. military presence in the country ensured that the Taliban would regain control. The immediate collapse of Afghanistan and the inability of the United States to evacuate all American citizens, lawful permanent residents, and Afghan allies before the August 31 deadline revealed how misinformed and unprepared the White House, State Department, and other government agencies involved were in proceeding with the Afghanistan pullout. Despite fierce bipartisan criticism, President Biden continues to defend how he handled the withdrawal. While the State Department has been able to successfully evacuate some American citizens and Green Card holders since the end of August, Republican lawmakers are concerned that the $64 million in humanitarian aid to Afghanistan could not only be intercepted by the Taliban but is also being used as a ransom payment to ensure the safe evacuation of Americans that were left behind.