

THE ECONOMY AT A GLANCE

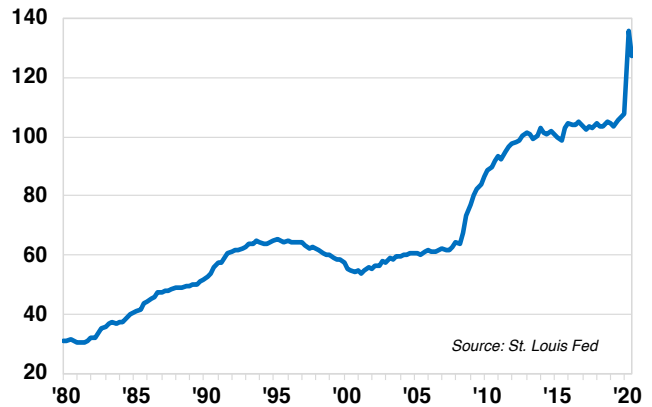
ECONOMIC HIGHLIGHTS

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LOFTY DEBT

U.S. debt levels have quietly and quickly grown over the past 10 years. Total U.S. debt is now more than 120% of GDP, according to the Office of Management & the Budget. That is the highest level since World War II. Now, in light of the fiscal spending to fight the impact of COVID-19, debt levels will surge again. This is not a problem that has to be fixed today. After all, interest rates are low on an historical basis and policies to change the trajectory (less spending, more taxes) could push the economy into decline. But politicians should start to establish a plan to address the issue in the next 10-15 years. If not, the situation could result in hyperinflation or an inability for the government to address long-term problems such as infrastructure or climate change.

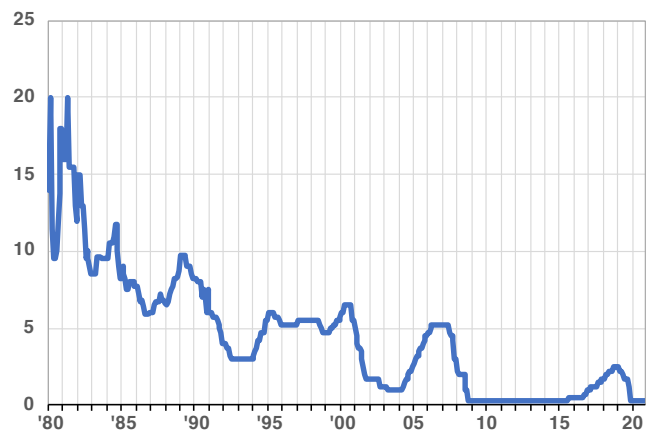
U.S. DEBT/GDP RATIO (%)



CHAIRMAN POWELL: RATES LOW FOR A LONG TIME

The Federal Reserve recently decided to maintain the federal funds rate at a rock-bottom 0.00-0.25%. The non-action had been expected, given the current high level of unemployment, but traders have been worried about the potential for inflation as the economy reopens. Fed Chairman Powell noted that the country has avoided the worst potential outcomes from the pandemic, in part due to a combination of fiscal and monetary policy. But segments of the economy (leisure and hospitality, for example) remain under pressure, and “no one should be complacent” according to Chairman Powell. Our forecasts call for the yield curve to steepen slightly into 2022 as long-term rates drift higher toward 2.0%, which is still a historically low level.

FEDERAL FUNDS TARGET RATE (%)



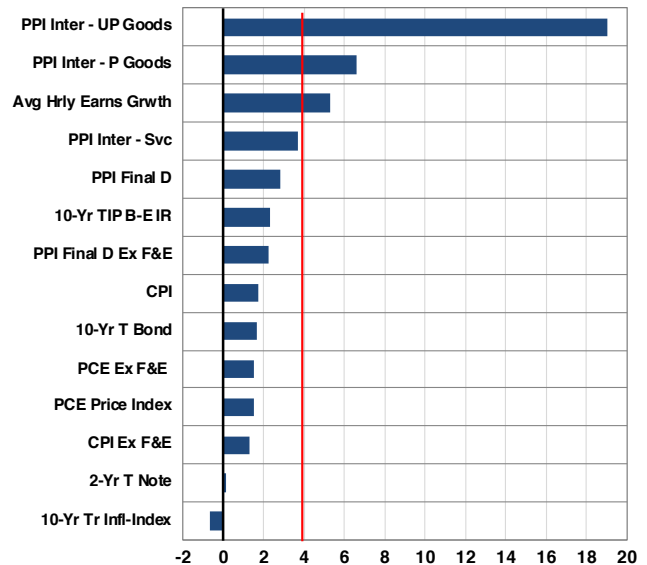
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ECONOMIC HIGHLIGHTS (CONTINUED)

INFLATION MOVING UP PIPELINE

Pricing pressures are starting to pick up -- primarily at the producer level -- and it should not be too long before more mainstream measures of inflation start to tick higher as well. Even so, we don't think the U.S. Federal Reserve is too worried, and Chairman Powell has even said that the central bank is willing to let inflation rise above its 2% target in exchange for a continued decline in unemployment. We track 14 inflation measures on a monthly basis. On average, they indicate that prices are rising at a 3.8% rate, ahead of last month's reading, which was 2.3%. But drilling down to core inflation, our reading is 1.7%, in line with last month's reading of 1.7%. The big increases in recent months have come at the producer level, as the PPI for intermediate-unprocessed goods, for example, is now 19% and the PPI for intermediate-processed goods is over 6.0%. Much of this price activity reflects the recent recovery in commodity prices, including oil. The Federal Reserve's inflation forecasts call for a core inflation reading of 2.2% in 2021 and 2.0% in 2022.

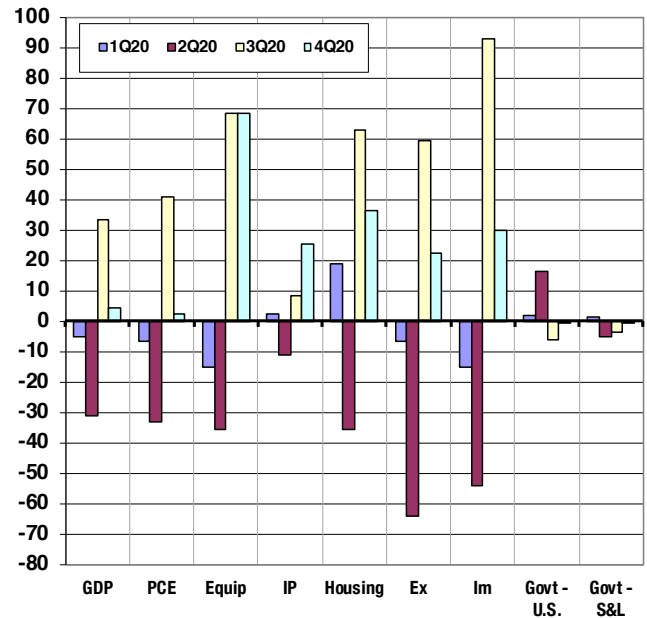
INFLATION MEASURES (% CHANGE Y/Y)



FINAL 4Q GDP READING: 4.3%

The U.S. Department of Commerce announced that its "third" estimate for 4Q20 GDP growth was a rate of 4.3%. This represents a return to more-normal GDP results after 30% swings down and up in 2Q20 and 3Q20, respectively. The report also includes an inflation gauge, the PCE price index. This index, excluding food and energy, rose at a 1.3% pace, well below the Federal Reserve's inflation target of 2.0%. Although the economy has expanded for two quarters in a row, the National Bureau of Economic Research has not yet declared that the recession is over. At \$21.49 trillion, the U.S. economy at the end of 4Q was still below its pre-pandemic high of \$21.75 trillion. Some segments of the economy are back to or above pre-pandemic highs. These segments include consumer spending on durable and nondurable goods, and investment into residential and intellectual property products. Other segments continue to lag, such as exports, consumer spending on services, and investment into structures. We anticipate a pick-up in economic growth in 2021, due in part to aggressive government spending.

GDP GROWTH DRIVERS (%)

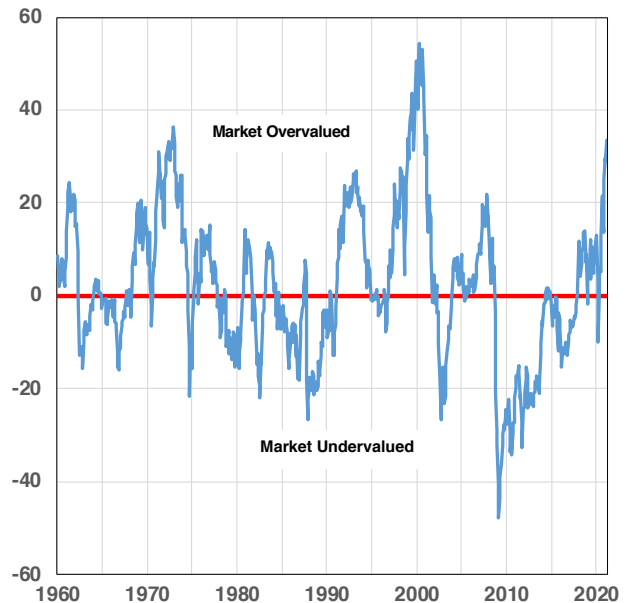


FINANCIAL MARKET HIGHLIGHTS

STOCKS REMAIN ABOVE FAIR VALUE

Stock prices, as expressed by the S&P 500, are near all-time highs and, on depressed earnings, are well above fair value (which our model pegs at closer to 3300 due to weak pandemic-influenced EPS in 2020). Our stock-market valuation model takes into account factors such as stock prices, five-year normalized earnings (three historical years, two forward-looking), GDP, inflation, and T-bond and T-bill yields. We note that stocks rarely trade right at fair value. Since 1960, on average, the index has traded at a tight 2% above fair value, but the standard deviation to the mean is 16%. That means we expect the S&P 500 to trade between 14% undervalued and 18% overvalued. At current prices, the stock market is almost 25% above fair value, implying that investors are quite optimistic about equities. We'd feel better about the outlook for stocks if valuations were not so stretched. Several factors could improve valuations: a pull-back in stock prices; lower bond yields; or better earnings (which we expect to see in upcoming quarters).

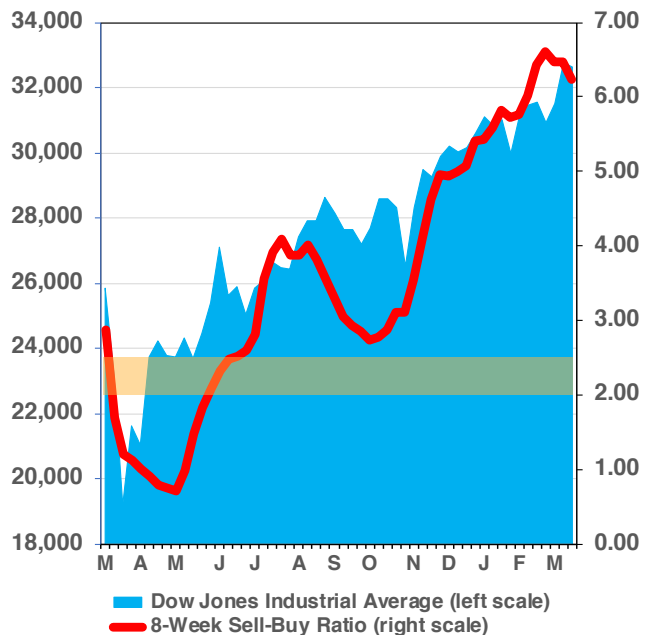
S&P 500 VALUATION MODEL (0% = FAIR VALUE)



INSIDER SENTIMENT SEESAWS

Recent insider sentiment has trended for the better one week and for the worse the next. In our weekly review of insider-transaction data from Vickers' Stock Research, there is improvement. Vickers' benchmark NYSE/ASE One-Week Sell/Buy Ratio is now 5.18, better by 147 basis points (bps) since last week -- but nowhere near the 2.50 reading that would move the indicator to neutral from the current bearish result. The NYSE/ASE Eight-Week reading is now 5.73, better by 17 bps since last week. Including insider transactions from the Nasdaq, Vickers' Total One-Week Sell/Buy Ratio is now 5.62, an improvement of 85 bps, and the Total Eight-Week Sell/Buy Ratio is 6.23, better by 25 bps. Looking at sales and purchase transaction volume, we note that the total number of sales transactions that met the criteria for inclusion in Vickers' Weekly Insider Report is down by 6% week-over-week. The total number of purchase transactions is up by 8%. NYSE sales transactions are down 14% and purchase transactions are up by 4%. Nasdaq sales transactions are down 1% and purchase transactions are up 5%.

TOTAL 8-WEEK SELL/BUY RATIO VS. DJIA



ECONOMIC CALENDAR

Previous Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
30-Mar	Consumer Confidence	March	91.3	96.5	96.0	NA
1-Apr	ISM Manufacturing	March	60.8	60.6	60.5	NA
	Construction Spending	February	1.7%	0.5%	-0.7%	NA
2-Apr	Non-farm Payrolls	March	379 K	550 K	600 K	NA
	Average Weekly Hours	March	34.6	34.7	34.7	NA
	Average Hourly Earnings	March	0.2%	0.2%	0.2%	NA
	Unemployment Rate	March	6.2%	6.2%	6.0%	NA

Next Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
13-Apr	Consumer Price Index	March	0.4%	NA	NA	NA
	CPI ex-Food & Energy	March	0.1%	NA	NA	NA
14-Apr	Import Price Index	March	1.3%	NA	NA	NA
15-Apr	Retail Sales	March	-3.0%	NA	NA	NA
	Retail Sales ex-Autos	March	-2.7%	NA	NA	NA
	Business Inventories	February	0.3%	NA	NA	NA
	Industrial Production	March	-2.2%	NA	NA	NA
	Capacity Utilization	March	73.8%	NA	NA	NA
16-Apr	Housing Starts	March	1421 K	NA	NA	NA

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