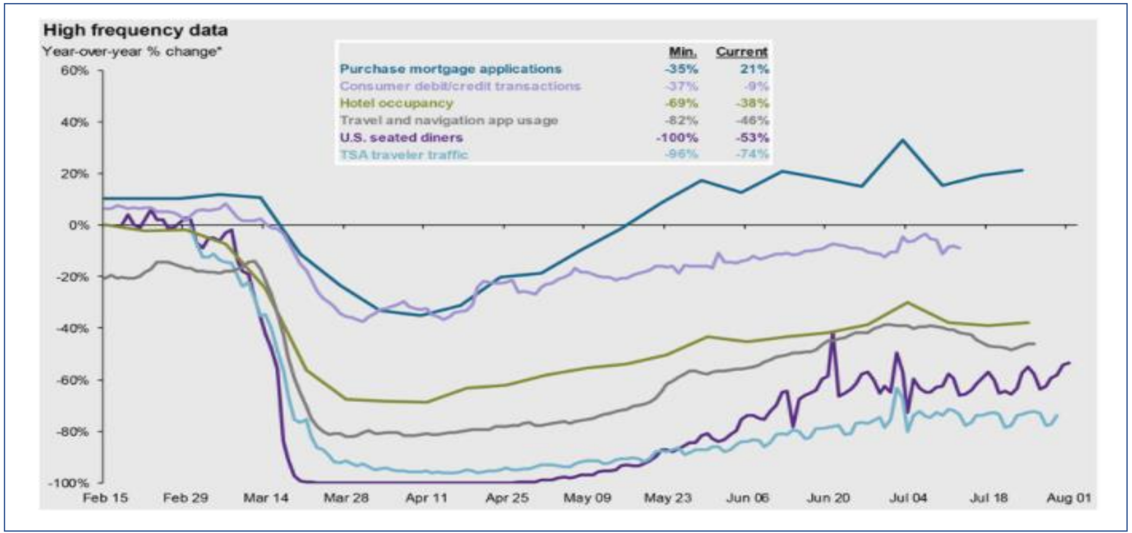
Market Recap

The Pandemic Has Reshaped Consumer Spending



Source: J.P. Morgan

Some consumer categories have fared better than others in the pandemic-stricken economy (e.g., online grocery, mobile payments, home improvement, etc.). While consumer spending has been temporarily boosted by Congressional stimulus payments, troubled categories like airlines, restaurants, and physical retail cannot fully recover until a vaccine becomes widely available and social distancing measures are curtailed. In the meantime, a shadow lurks. Some of the consumer behavioral changes in progress (e.g., a more durable increase in spending on homes relative to other activities like restaurants and travel) are likely to have lasting effects beyond the pandemic. Consumers haven't stopped craving entertainment, they're just pursuing it by different means.

Bond Yields Are Often Negative After Inflation

Source: Financial Times

Negative real yields, which are bond yields after deducting inflation, are driving gains across most asset classes despite the COVID-19 pandemic. Since United States Treasury bonds have negative yields after accounting for inflation, investors are taking more risk and bidding up the prices of corporate bonds and stocks. Although long-term inflation expectations have risen sharply, they are still low on a historical basis. Bond investors frequently compare the yield on the ten-year US Treasury bond to the yield of the 10-year Treasury Inflation-Protected Security (TIPS) to gauge inflation expectations. Currently, the ten-year break-even in the United States is approximately 1.6%, well below the Fed's target. Consequently, the Federal Reserve is likely to maintain short-term interest rates close to zero for several more years.

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The Two Pillars of Economics

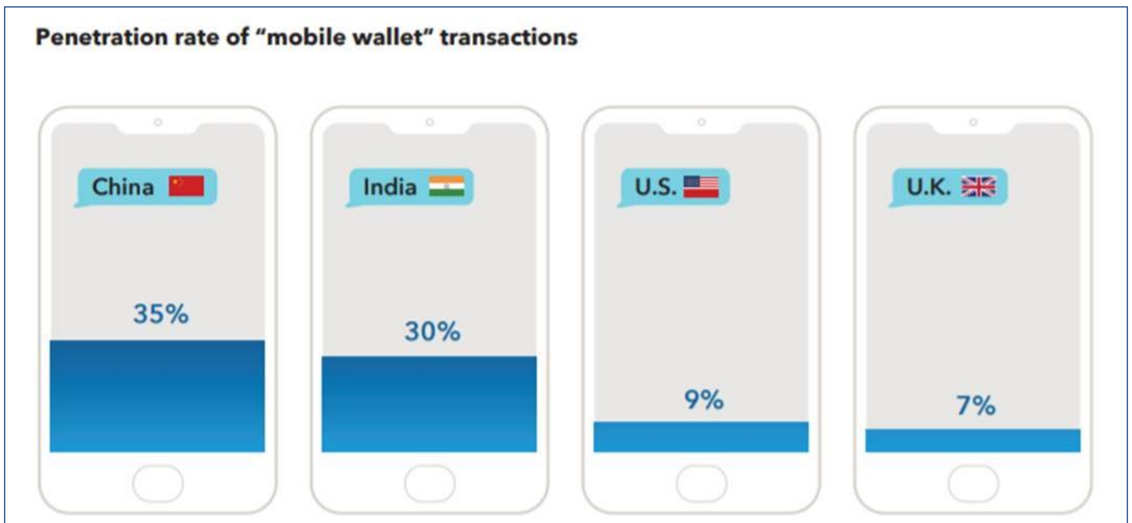
Fiscal Policy vs. Monetary Policy

Fiscal Policy	Monetary Policy
Government Policies that Affect Economic Growth	
CONGRESS	FEDERAL RESERVE
Taxes & Government Spending	Interest Rates & Money Supply
Fund the Government's Operations Encourage Economic Growth	Encourage (or Discourage) Borrowing Control Inflation
Elected Officials *(More Political)*	Appointed Governors *(Less Political)*

Source: tomrichey.net

Fiscal and monetary policy may sound like fancy terms or even a foreign language to many people. However, these two concepts can be easily explained and understood. Fiscal policy refers to decisions made by Congress and the President of the United States about taxes and government spending. Fiscal policy is commonly associated with the budget deficit or surplus (the difference between government spending and its revenues). Monetary policy refers to actions taken by the central bank to ensure price stability, maximum employment, and stable economic growth. The Federal Reserve controls monetary policy in the United States. This agency sets short-term interest rates and stimulates financial markets by buying bonds in the open market which is known as quantitative easing. Successful coordination between fiscal and monetary policy has greatly supported the economy and prevented a depression during the COVID-19 pandemic.

Banking on the Digital Wave



Source: The Capital Group

Mobile payments have seen strong adoption in the United States and have grown at an even faster rate in Emerging Market economies across Africa, Asia, and Latin America. Indeed, the global mobile payments market is expected to more than triple by 2025. While countries like China and India do not have a comparable infrastructure to more developed Western nations, this has been an advantage in the adoption of mobile payments. Thanks to the global proliferation of connected devices and without the 'burden' of an extensive network of physical bank branches, emerging market consumers have essentially leapfrogged the traditional transition process, migrating from generally under-banked to mobile-empowered.

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