

In the Markets Now

Unexpected strength

We believe in the old saying: a picture is worth a thousand words. Here, we aim to recap recent market action and provide some perspective to investors.

PWM Equity & Fixed Income Research
 Ross Mayfield, CFA
 Investment Strategy Analyst

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A HIGH-LEVEL LOOK AT THE DRIVER OF THE US ECONOMY: THE CONSUMER

I've spent the last week in awe at these charts. We just exited one of the more chaotic years in modern history, featuring a global pandemic, depression-era unemployment, and a historically deep recession. And yet, in aggregate, the US consumer is as strong as it's been in recent memory. A few thoughts on this trend:

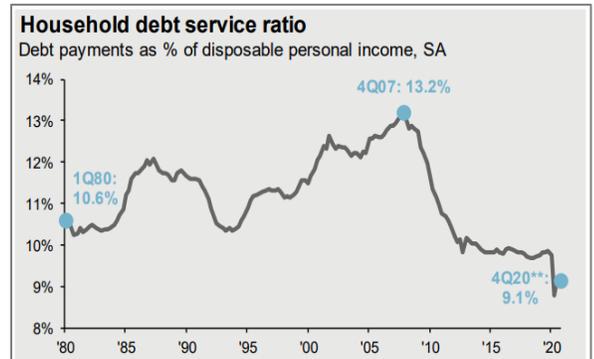
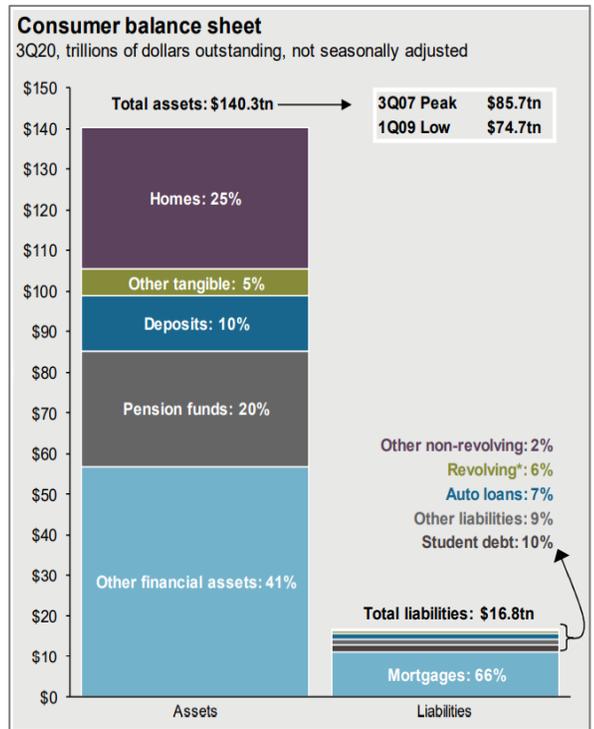
The consumer is key. It's no secret that consumption makes up ~70% of our economy, a higher figure than almost all other nations. As an example, in 2019, US personal consumption of ONLY food services, accommodations, clothing, & footwear was larger than the entire Australian economy. Nobel prize winner Robert Shiller put it thusly, "More than any other country, the US elevates consumer spending to a virtue." Good or bad, a strong consumer likely means a strong economy.

Consumer data is robust. The personal savings rate is high, personal income is up (thanks, stimulus), retail spending has recovered, and the labor market is healing (with a lot of the room left to go concentrated in sectors that will see big benefits from vaccine uptake—leisure, hospitality, etc.). Confidence remains the key. It hasn't come close to pre-pandemic highs, and is needed to unlock 2021's full potential.

The aggregate misses things. Talking about items as large as the US economy necessitates using aggregates and averages. But an average is not everyone. Inequality is a lingering issue that needs to be addressed or there will be ramifications, both economic and political. Some populations, industries, and localities have been hit much harder than others this last year—we cannot ignore that reality.

If there is an "inflation scare," this is why. US consumers, flush with cash and forced to sit on their hands for over a year, will spend. If demand for air travel, Airbnb rooms, and Bonnaroo tickets outpaces supply, prices will rise. Will the Fed flinch? Will this be a temporary effect of a one-time reopening or a harbinger of longer-term inflation?

The 2021 economic boom forecasted by many is predicated on unleashed pent-up demand, particularly in the services sector. This case rests on both a successful vaccine rollout and fiscal stimulus tailwind, but in the end, a healthy consumer brings it all together.



Source: JP Morgan Guide to the Markets Data include households and nonprofit organizations. SA - seasonally adjusted. *Revolving includes credit cards. Values may not sum to 100% due to rounding. **4Q20 figures for debt service ratio and household net worth are J.P. Morgan AM estimates.

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