

# WEEK IN REVIEW

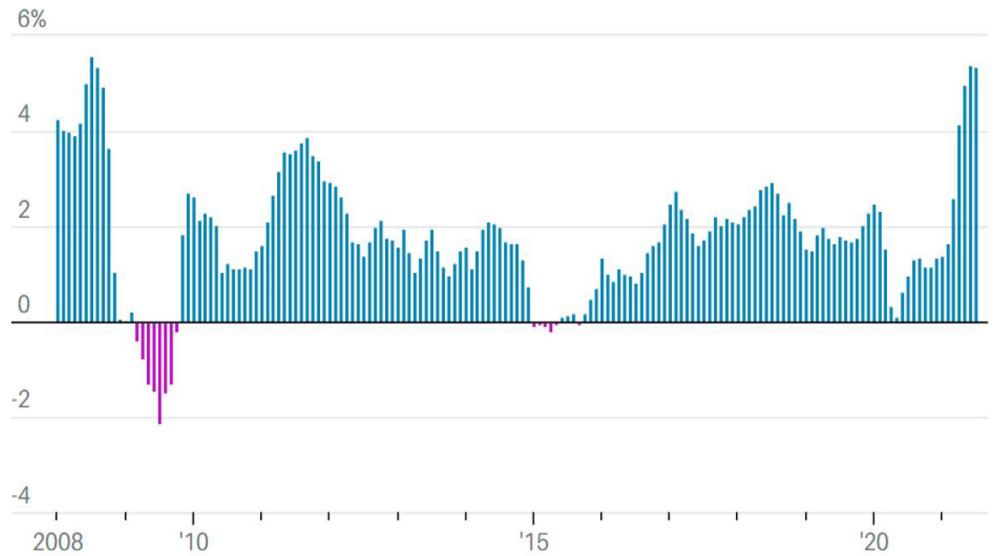
FRIDAY, AUGUST 13TH, 2021

## 1. INFLATION CONTINUES TO BE ELEVATED BUT SHOWS SIGNS OF PLATEAUIING

The Consumer Price Index (CPI) data through July was released this week. The CPI tracks the average change over time in the prices paid by consumers for a basket of consumer goods and services. In July, the CPI rose 5.4% over the prior 12 months which remains at the highest level since 2008.

There is some indication that the rate of inflation is at least plateauing. Core inflation, which excludes energy and food, saw a slight deceleration. The core figure for July was up 4.3% versus 4.5% for June. A moderation in the growth of used car and truck prices, which rose rapidly between April and June, was a significant factor in the slight drop. This would suggest that some of the price increases from the reopening and supply shortages are likely easing, while other components to the index, such as housing, are expected to accelerate following the strong rise in housing prices this year.

Consumer Prices Change Over Prior 12 Months

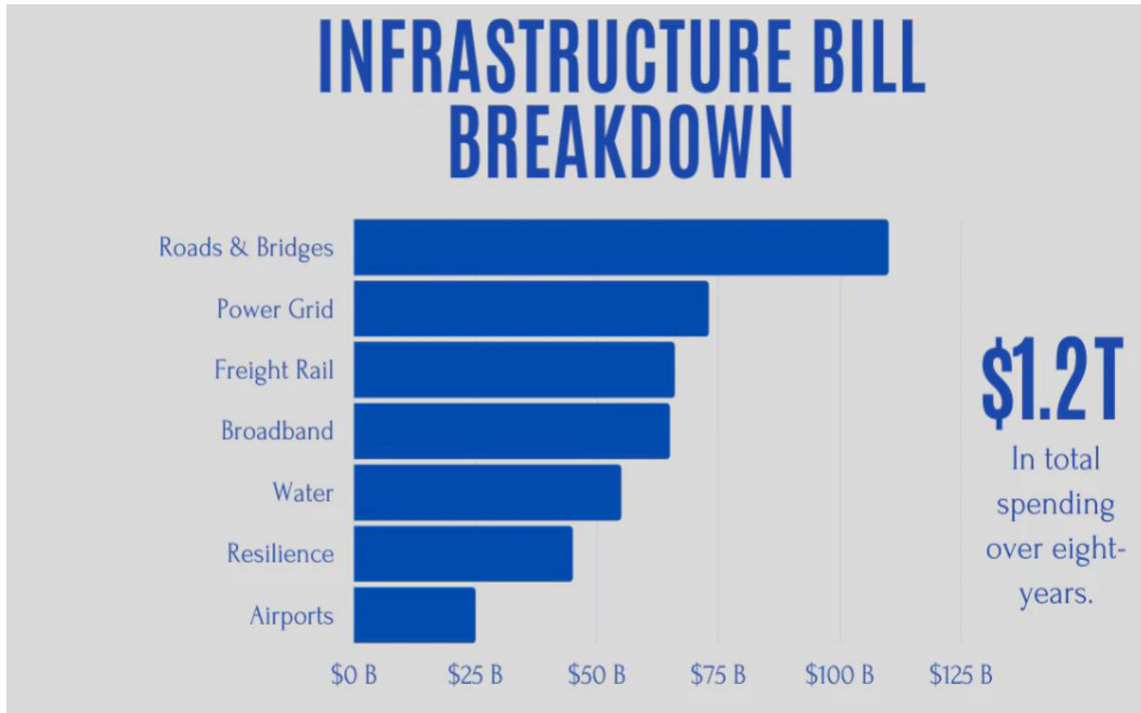


Source: St Louis Fed, Barrons

The Federal Reserve (Fed) keeps a close eye on core inflation and the data suggests that while run-away inflation is likely in check, the CPI is also likely to remain above the Fed's long-term target of 2%. In concert with improved employment data, the expectation is rising that the Fed will begin its move towards removing some fiscal stimulus measures in the near future.

## 2. INFRASTRUCTURE BILL GETS STRONG BIPARTISAN SUPPORT IN THE SENATE

The Senate passed the \$1 trillion infrastructure bill this week with a vote of 69-30 to approve. The bill includes spending to rebuild roads and bridges, fund transit systems and ports of entry, boost broadband internet, develop infrastructure (charging stations) for electric vehicles, support clean energy, and other initiatives.



Source: <http://www.forconstructionpros.com/>

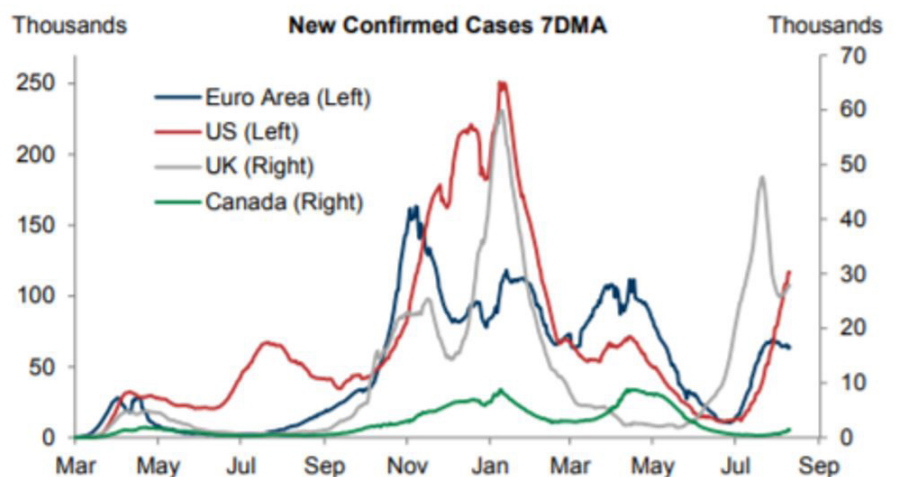
While passed by the US Senate, there is still some uncertainty as to the final passage of the bill as it needs to pass through Congress. Currently, there are plans to tie the infrastructure bill vote in Congress to the passage of a broader \$3.5 trillion plan that includes spending on free community college, childcare, paid family leave, and efforts to slow and mitigate climate change. Significant opposition to the magnitude of the additional spending exists, suggesting reconciliation will be necessary.

In any case, the spending anticipated by the infrastructure bill will be phased in over multiple years and is unlikely to have a material impact short-term on the economy.

### 3. COVID-19 CASES ON THE RISE IN THE US

The number of confirmed COVID cases driven by the Delta variant has risen significantly in the US. This has resulted in some setbacks, as companies delay employees returning to the office and airlines see a deceleration in bookings.

On the positive side, unlike with the rise in cases earlier in the year, it is estimated that 58% of the US population is fully vaccinated and that percentage continues to climb, albeit slowly. The



Source: Johns Hopkins University, Goldman Sachs

UK has seen its recent spike in COVID cases decline, while Europe more broadly has seen a plateauing in new cases. While the path for COVID in the US and its impact on parts of the economy remain uncertain, financial markets are not anticipating a major impact on the broader economy.

## THINKING AHEAD

This week saw additional data and events of many of the prominent themes of 2021 including inflation, government spending, and COVID. We expect these themes will continue to develop for the rest of 2021.

Pallas Capital Advisors will continue to monitor economic, political, and corporate data for implications to markets.

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