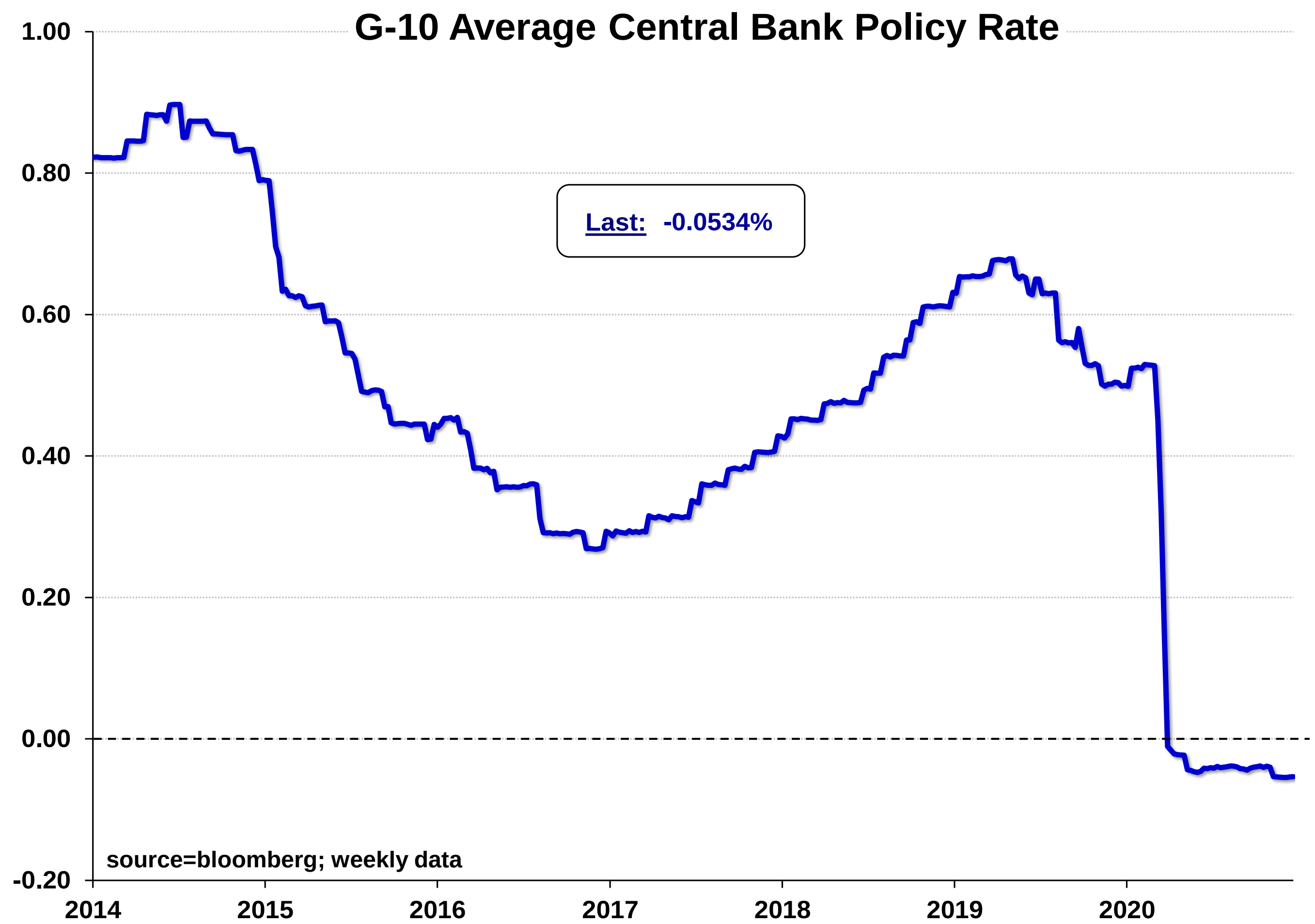
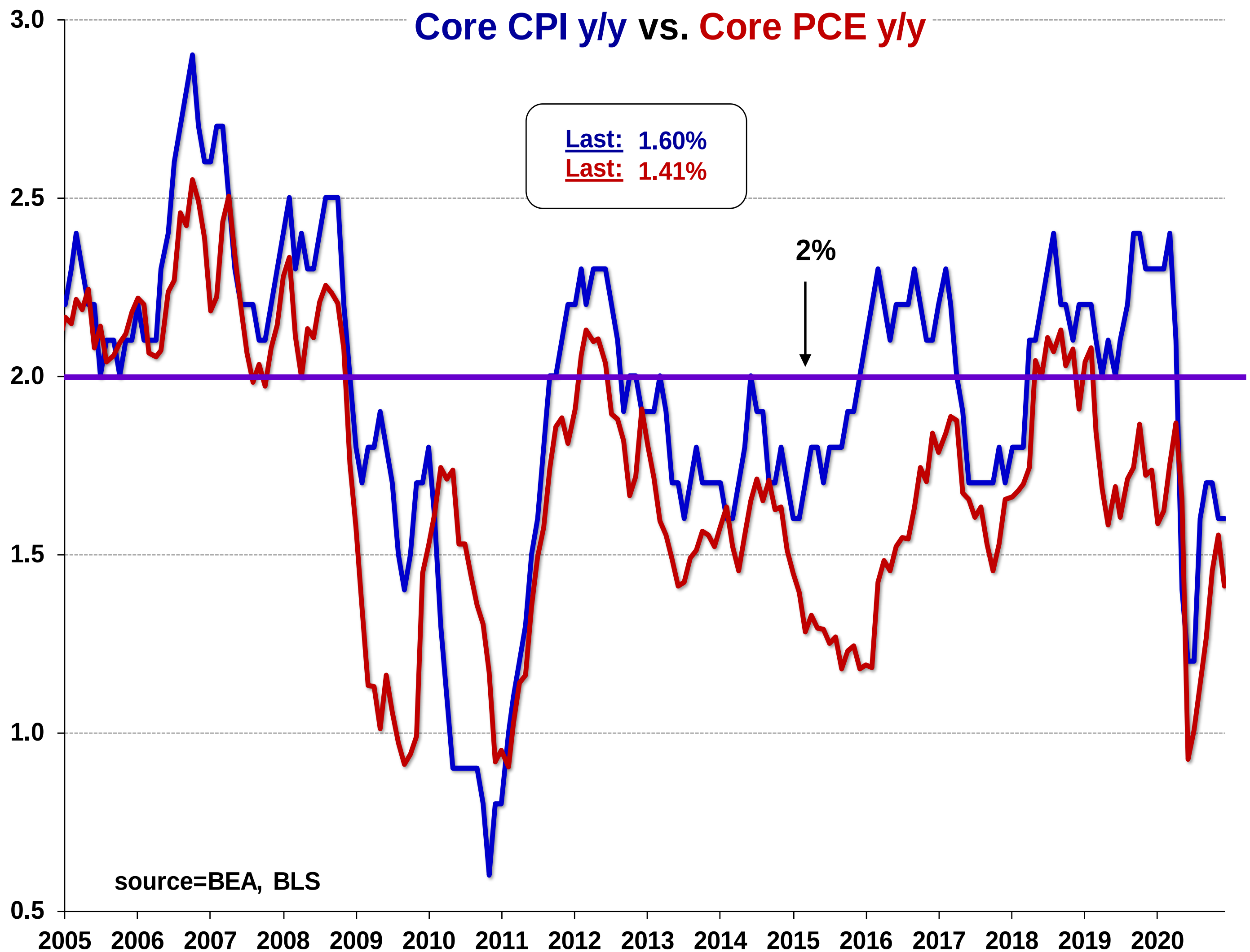
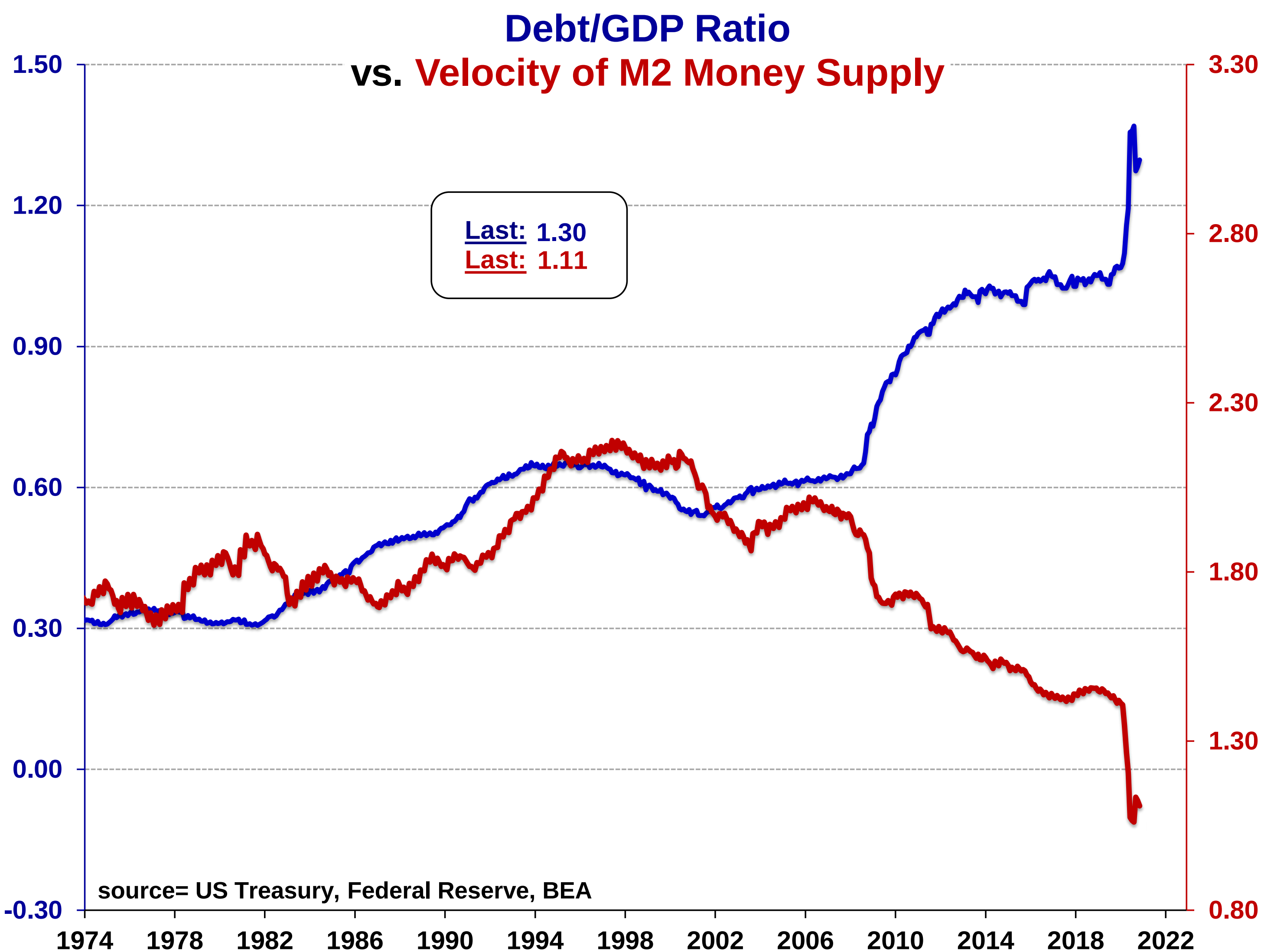
Inflation By Whatever Means Necessary: As noted in prior reports*, the Fed would let inflation run hot (above 2%) for an extended period.* Once again, Powell does not disappoint: *"We expect inflation to moderately exceed 2% for some time …We expect to maintain an accommodative stance of monetary policy until these employment and inflation outcomes are achieved".* In short: stimulus for longer, lower rates for longer, inflation hotter for longer.



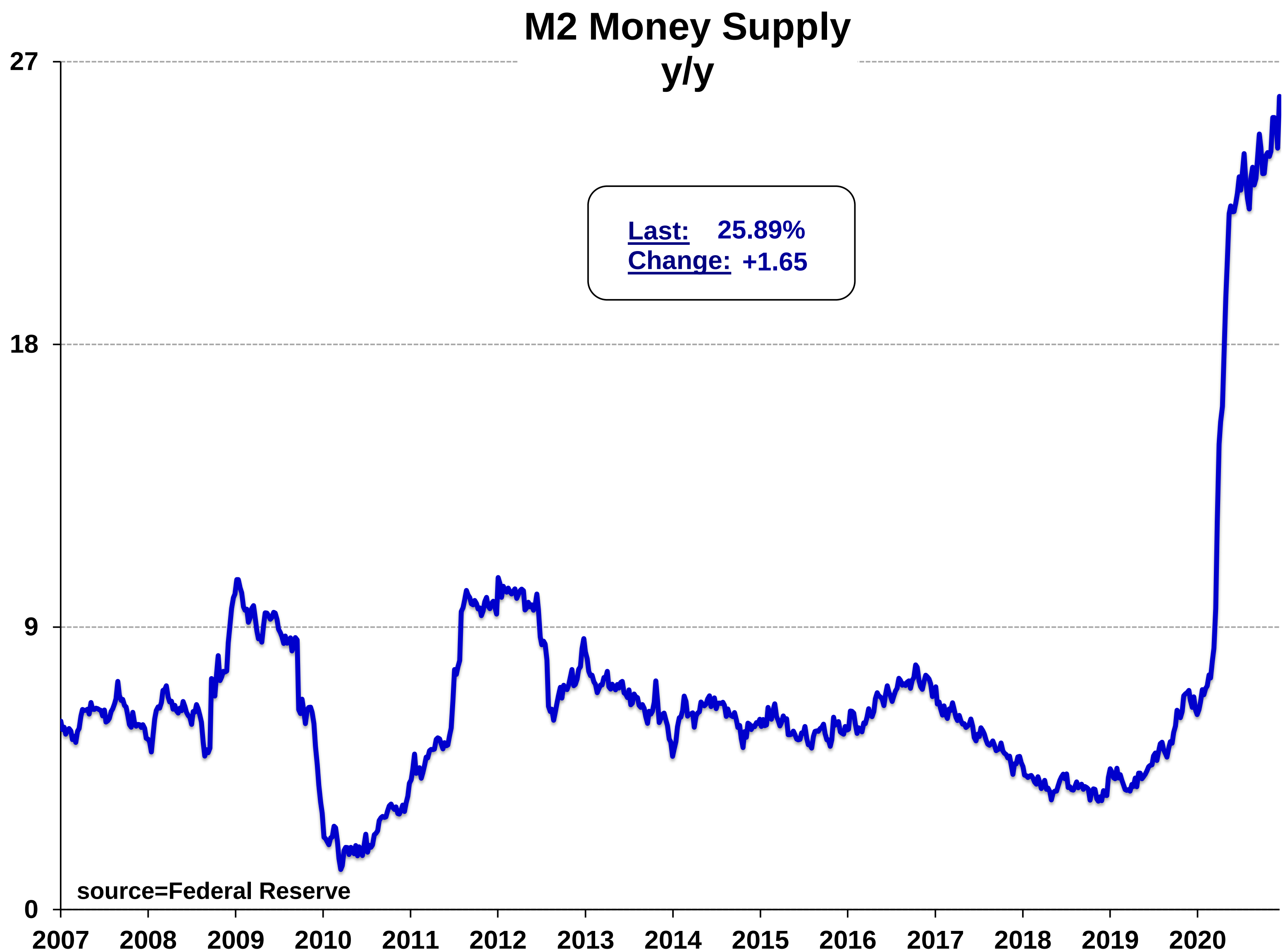
As we suggested months ago, for Core PCE to bounce back to 2% level for just the first time would take longer than anyone expects. And the data show as much: Core PCE heading lower again after having only bounced back to the 1.5% level. The Fed certainly has their work cut out for them…and the longer PCE lingers at these levels (or lower), the longer and hotter the Fed will let inflation run above 2%.



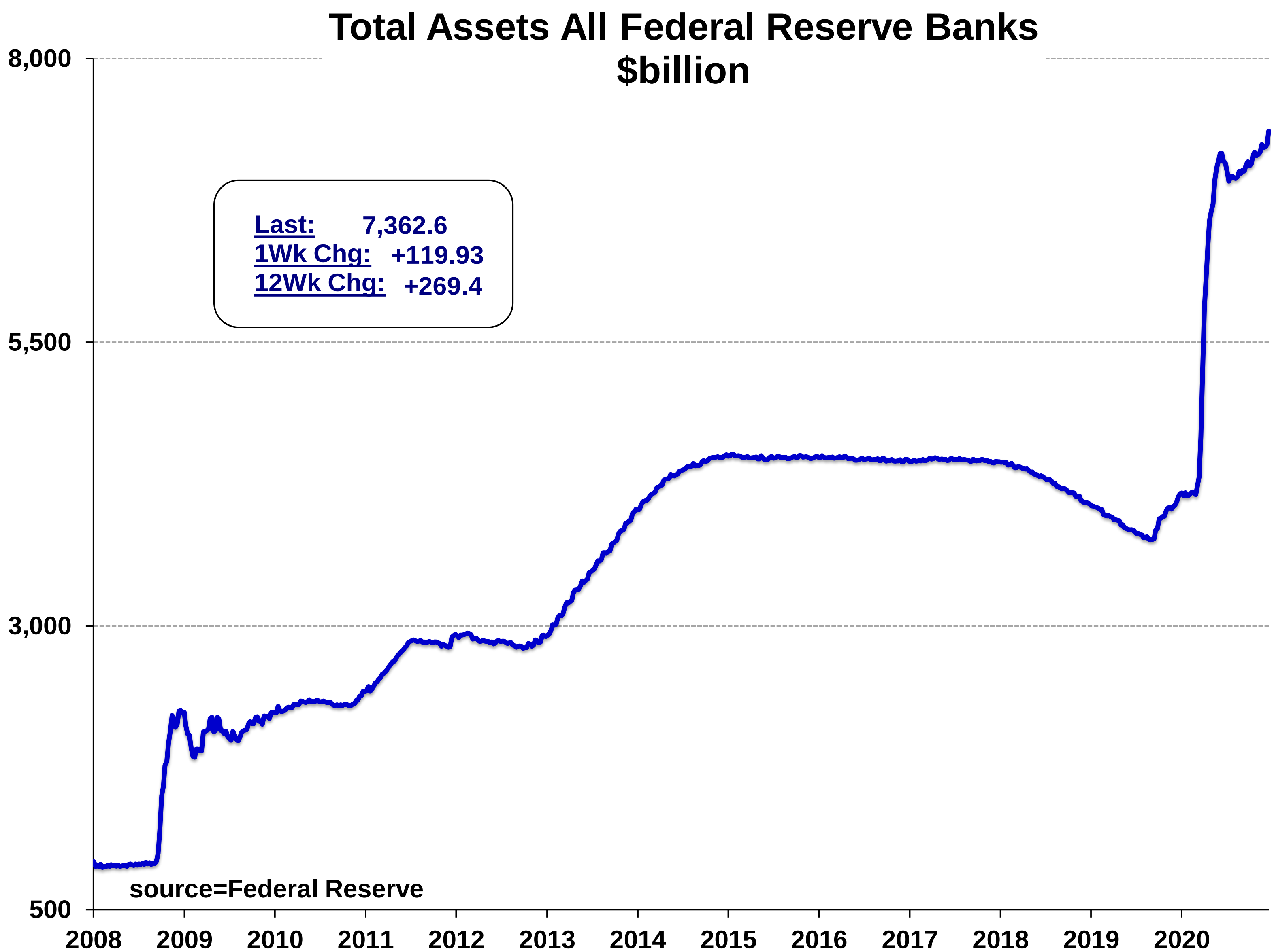
The Elephant In The Room remains: debt is exploding as flow of money through the economy (Velocity of M2) has cratered. In short: accommodative Fed & fiscal policies will almost certainly be with us for years ahead…suggesting the dollar's decline may be in early innings.



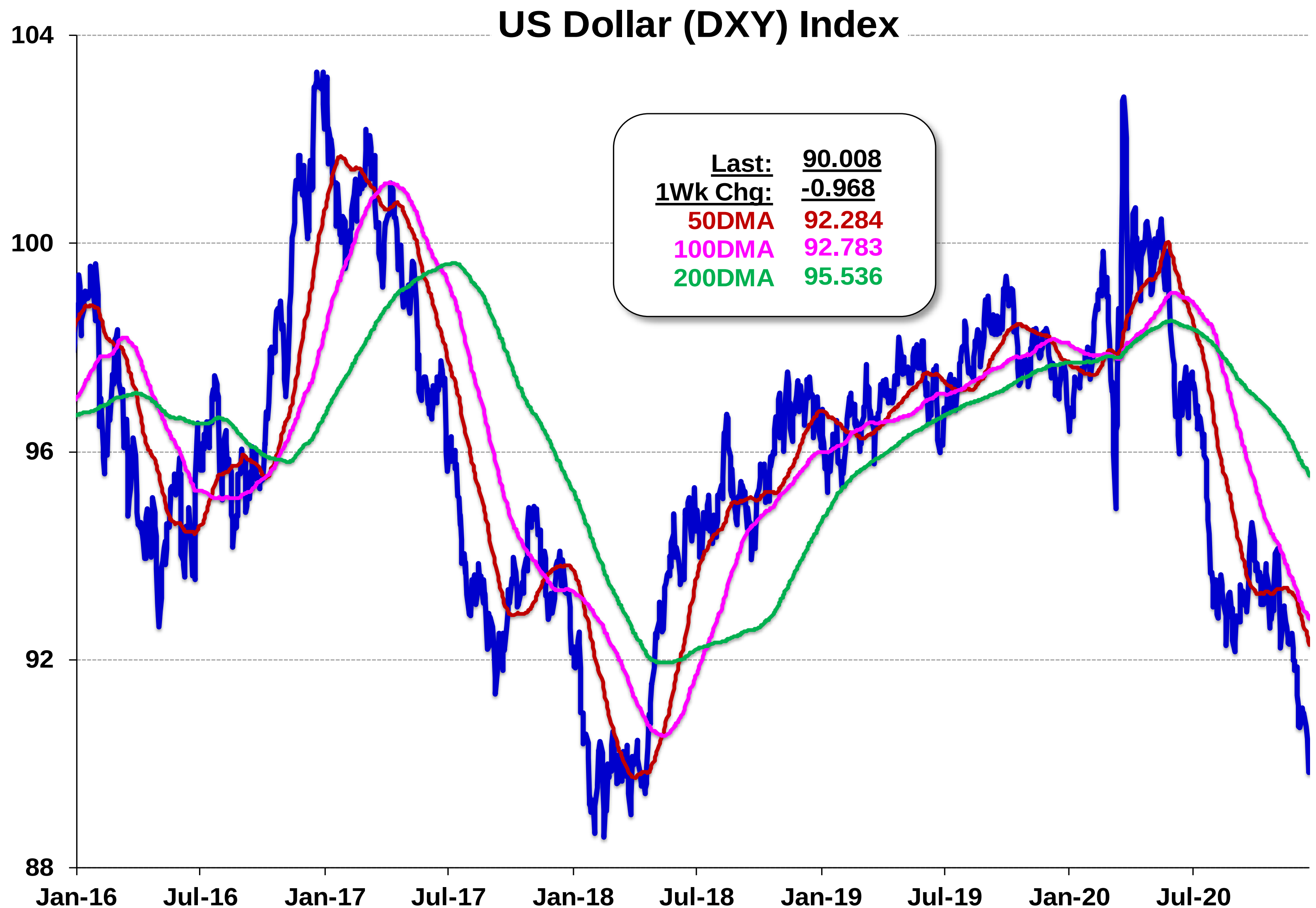
M2 Money Supply: expanding at record 26% y/y pace



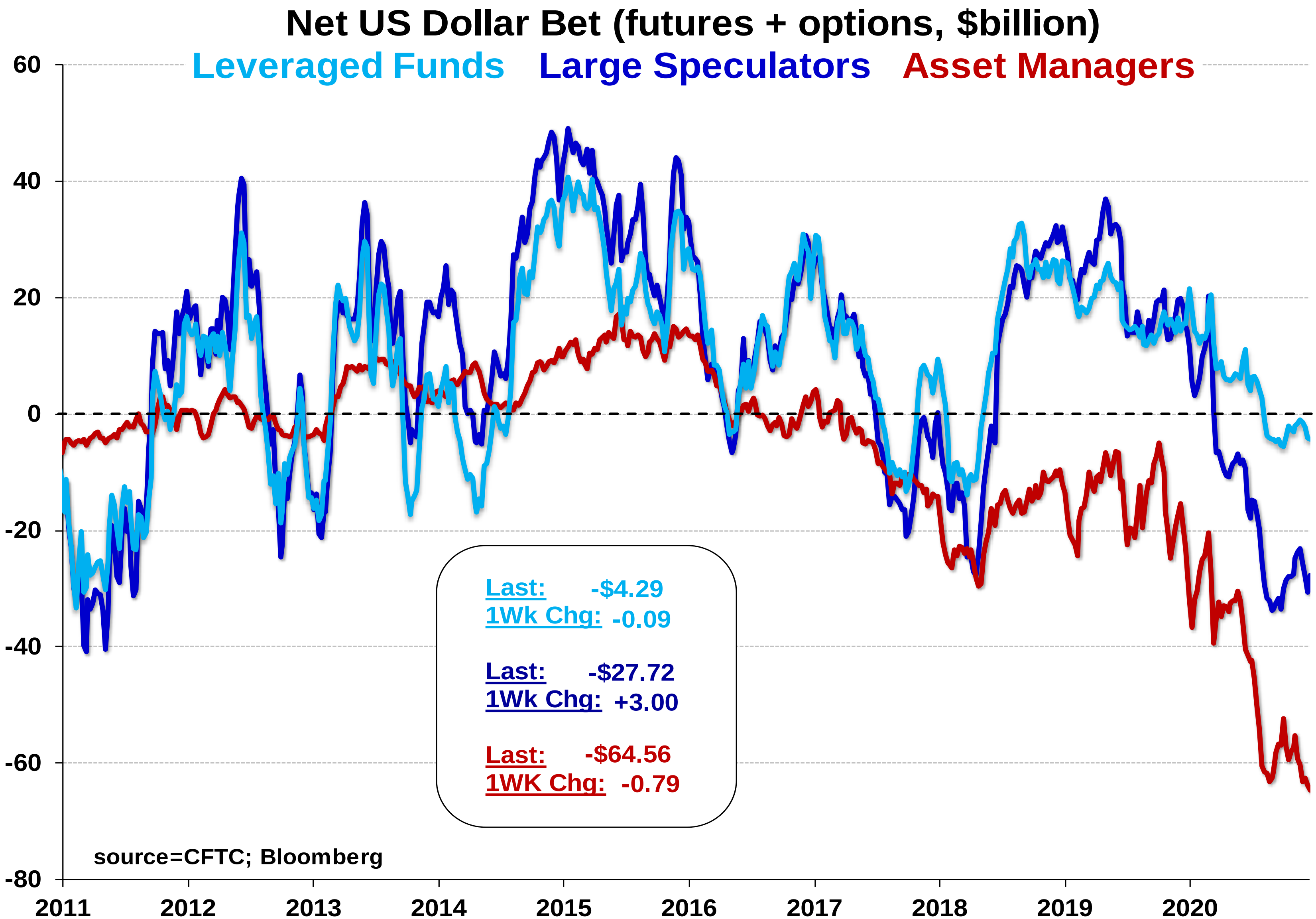
Fed Balance Sheet hits record $7.36 trillion



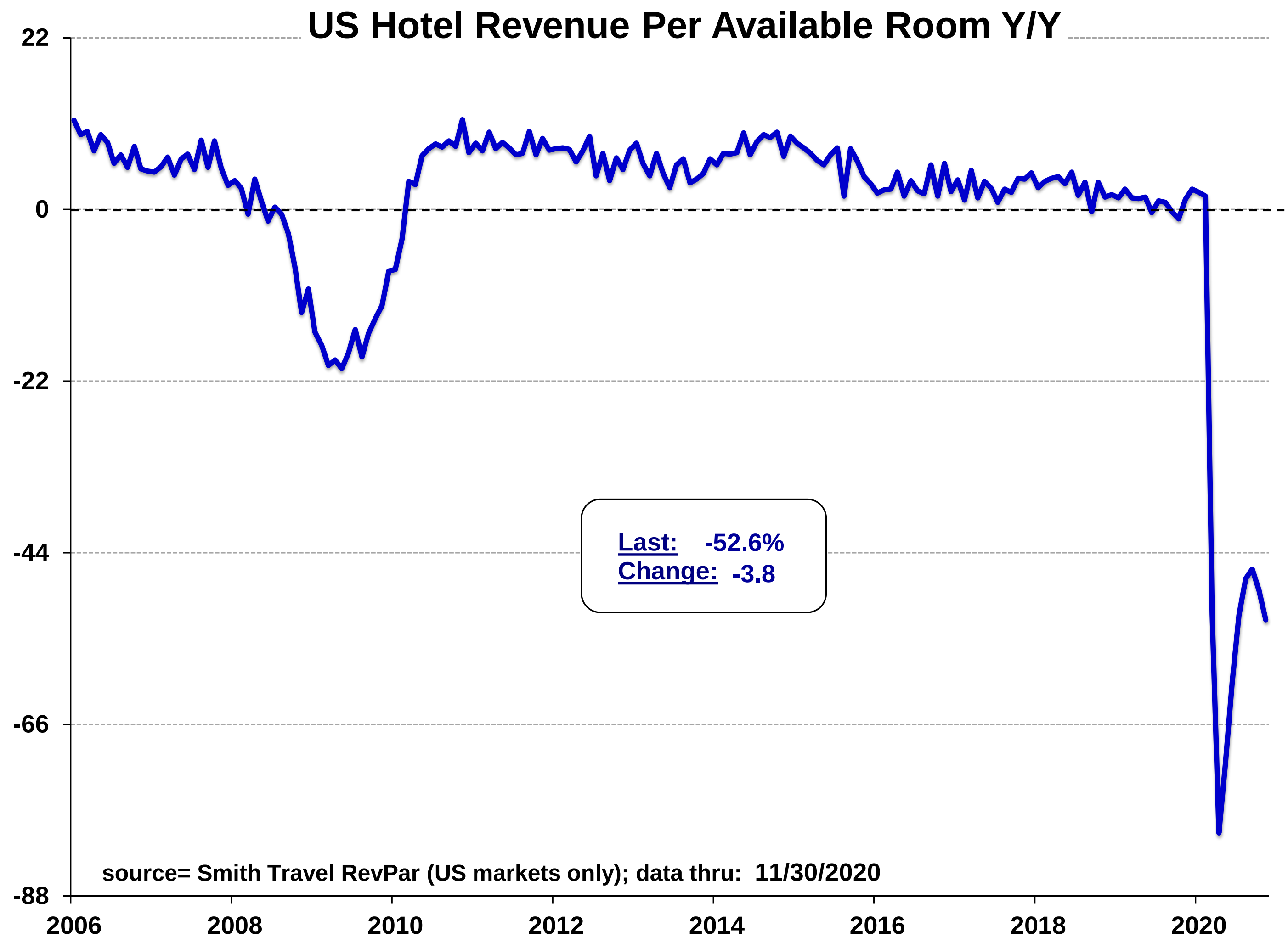
Dollar Index breaks below 90 last week to lowest since April 2018 before finishing Friday right at 90



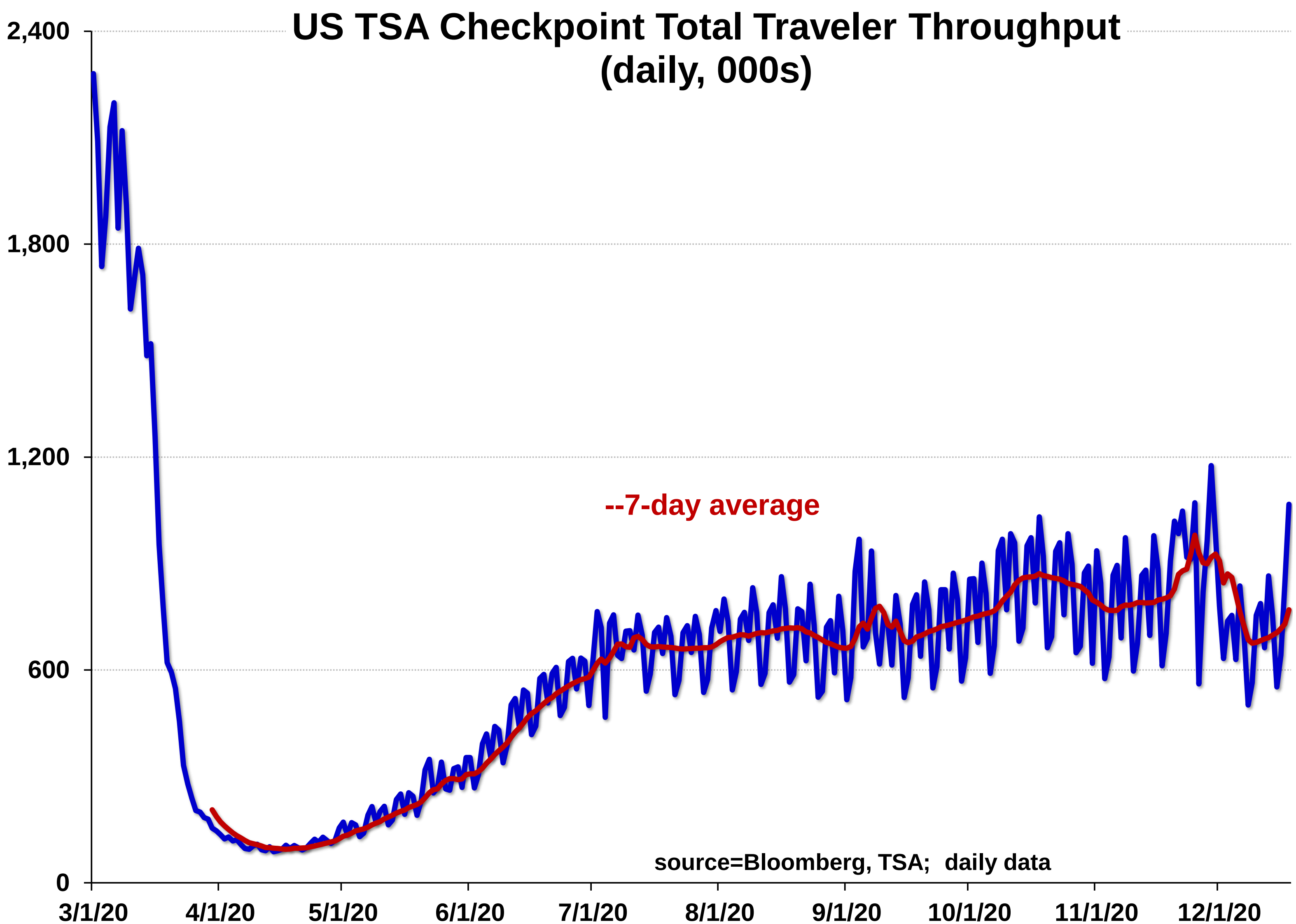
Asset Managers are record net short the Dollar



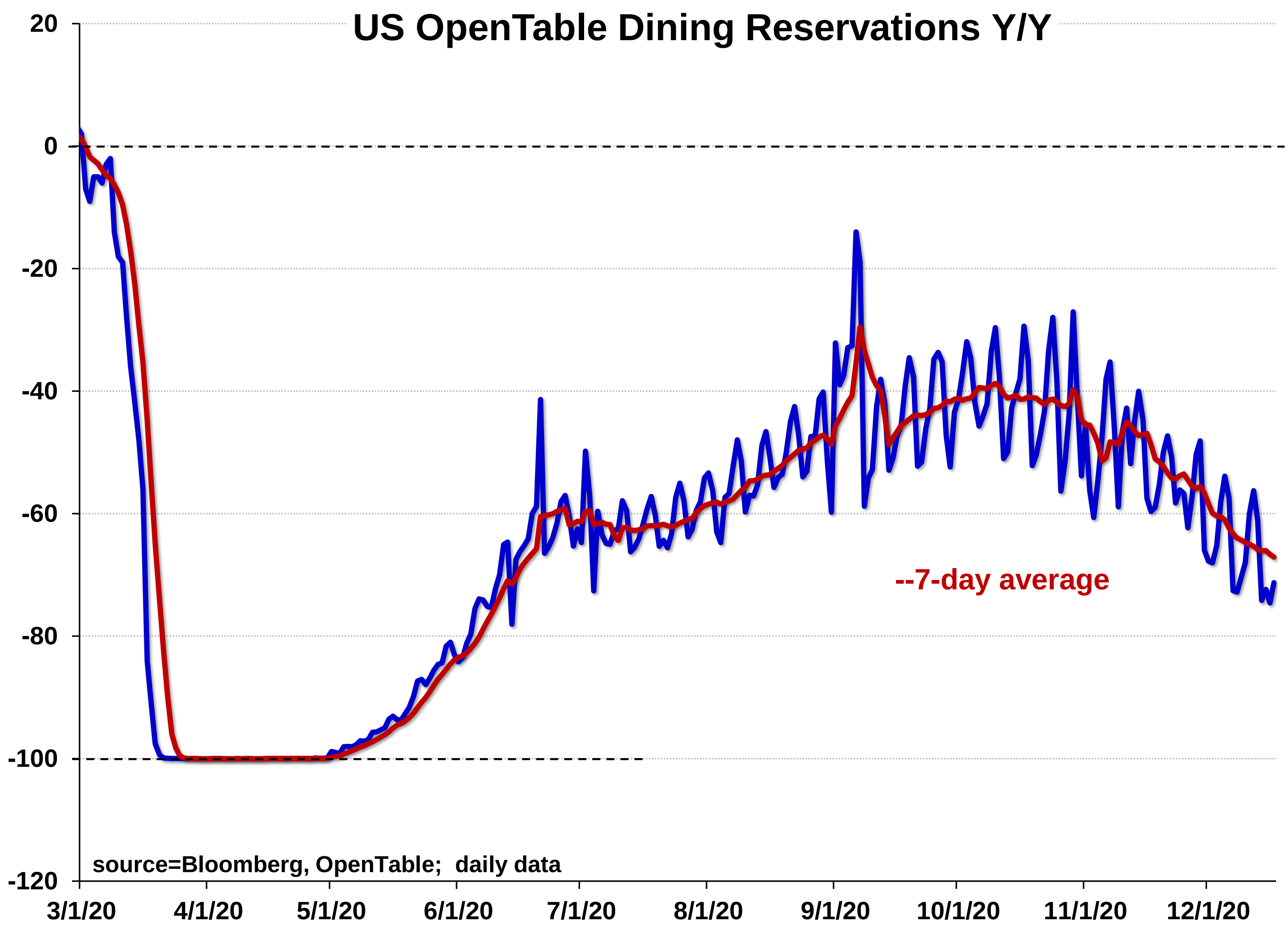
Service sector devastation continues:
November RevPar down -53% y/y…**NINE straight months of RevPar at -46% y/y or lower**. These are extinction-level numbers and, given continued lockdowns, we should expect a large number of smaller (boutique) hotels to file for bankruptcy along with a wide swath of restaurants and other leisure/entertainment venues. As such, we are more than likely to see a negative payroll print in the near future.



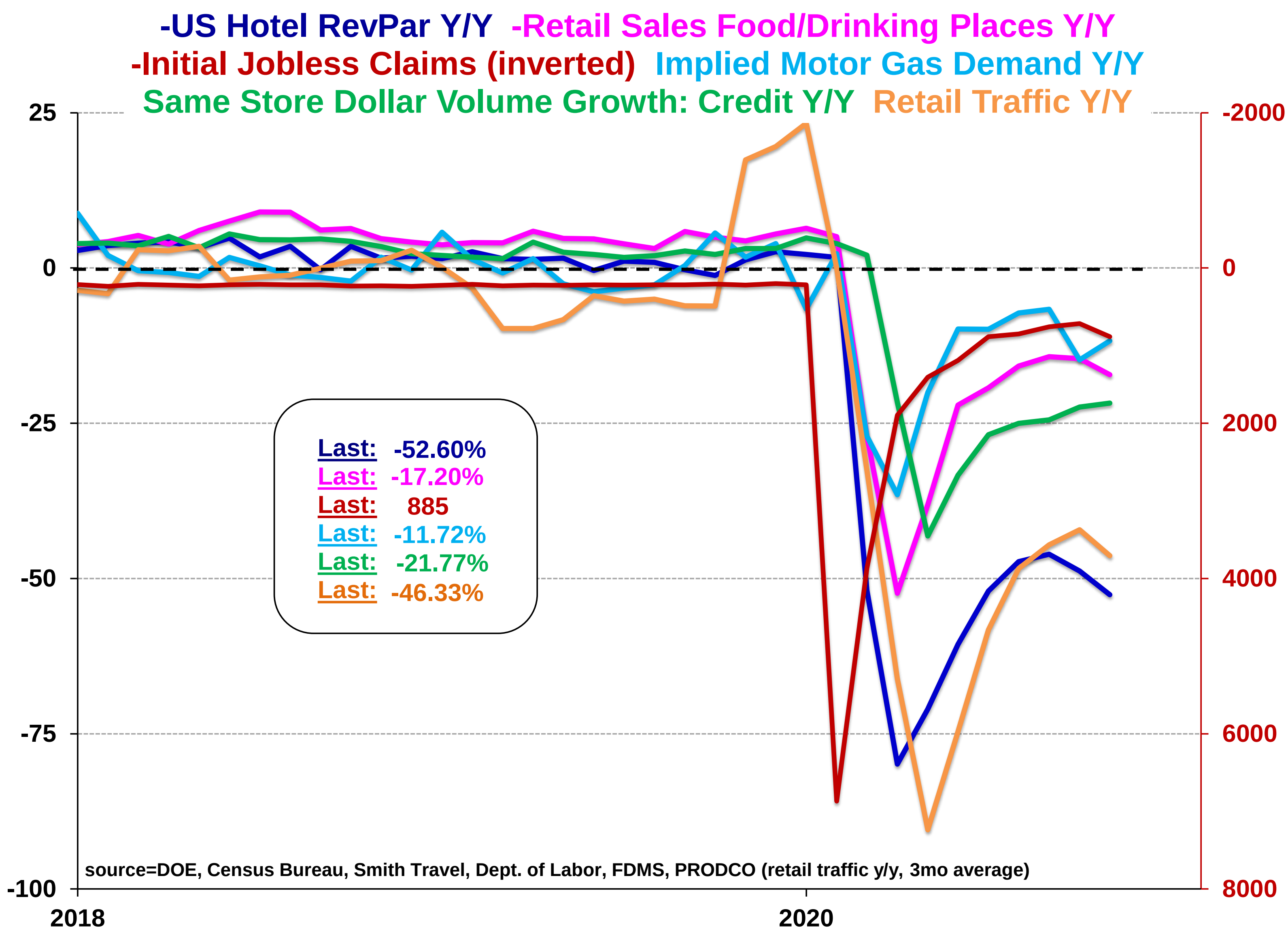
Air passenger traffic turns up as holiday travel season begins, but not likely to produce meaningful turnaround anytime soon



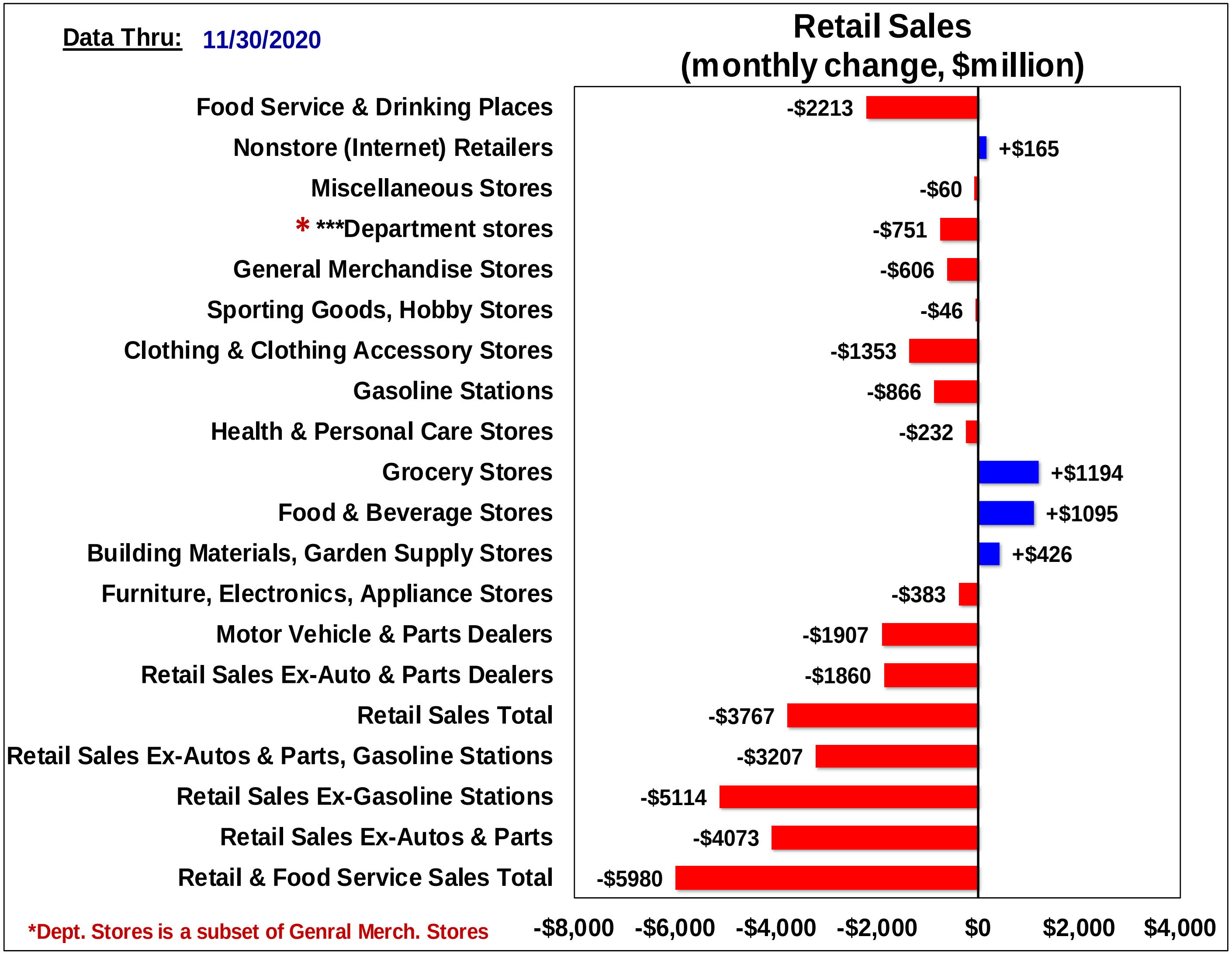
Restaurant Apocalypse: reservations down -60%+ y/y…pointing toward continued rise in Initial Jobless claims



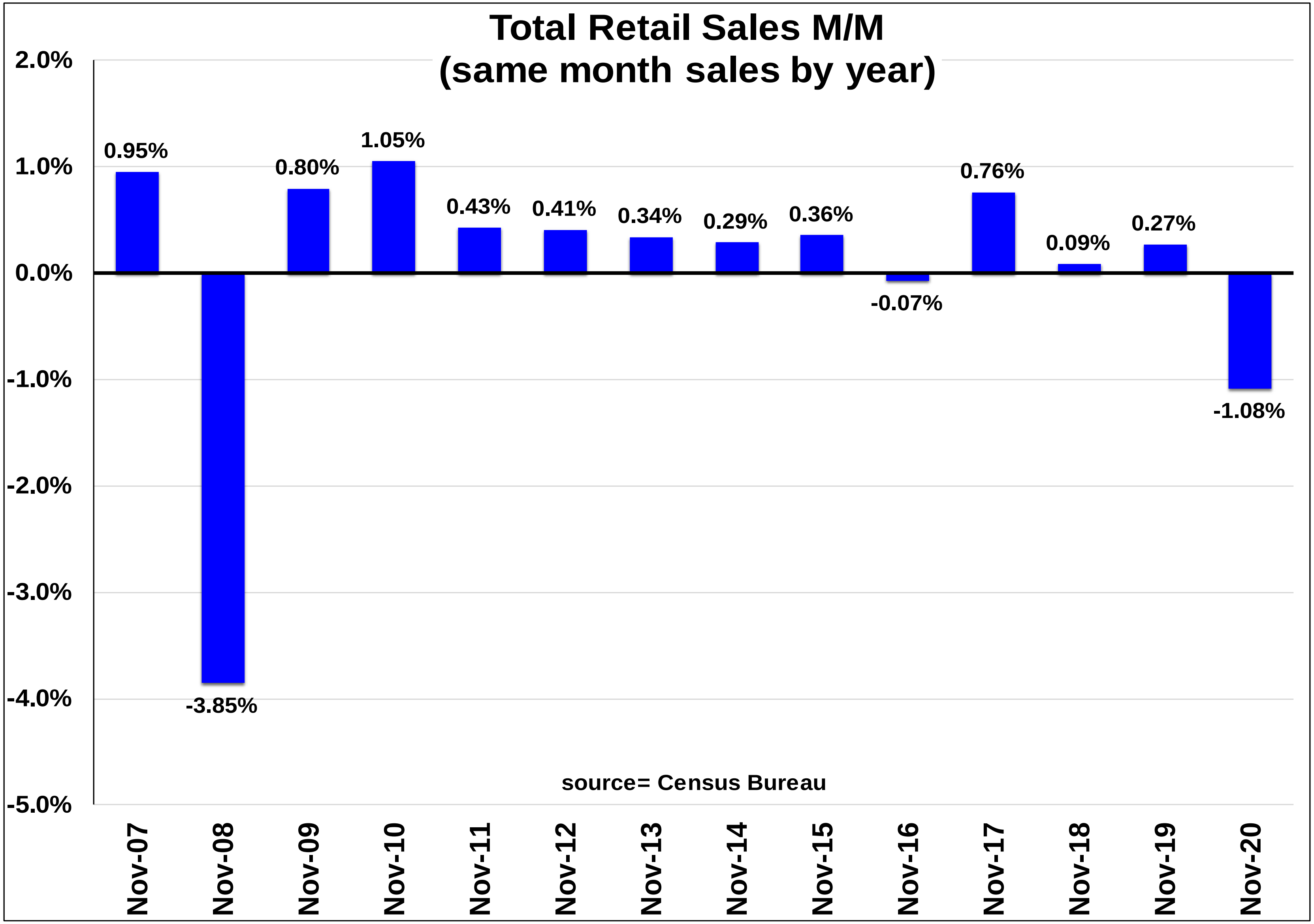
The recovery has stalled and is now heading in reverse



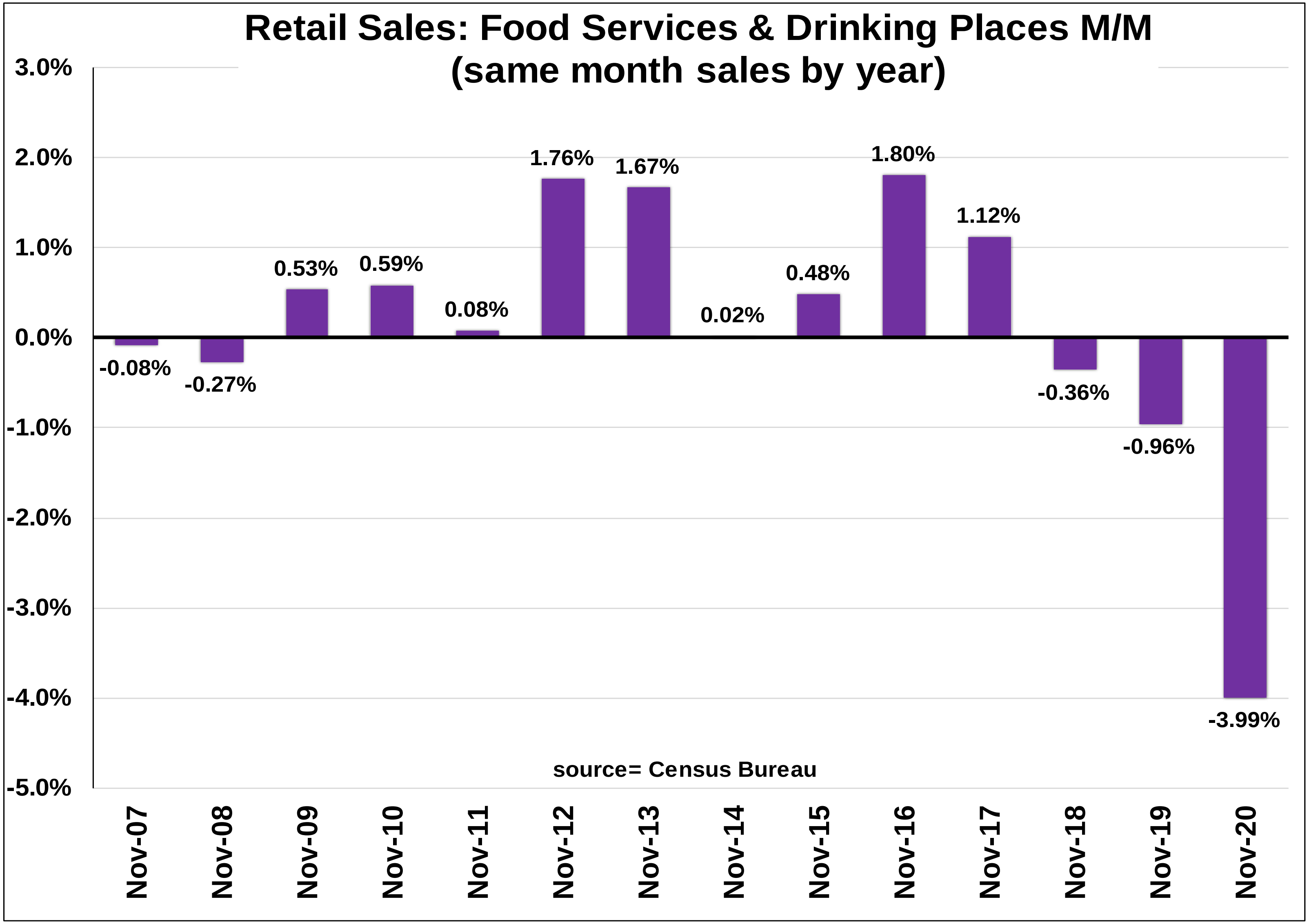
As suggested in our Chart of The Day earlier in the week, Retail Sales would likely come in at least 2x worse than expectations….and they came in nearly 4x worse: -1.1% m/m vs. expectations of -0.3%. This was the biggest m/m decline since April, led by Autos, Food Services, Clothing, and Department Stores. This decline is very worrisome, signaling the economic expansion has effectively hit a wall and the consumer (+employment) are in trouble.



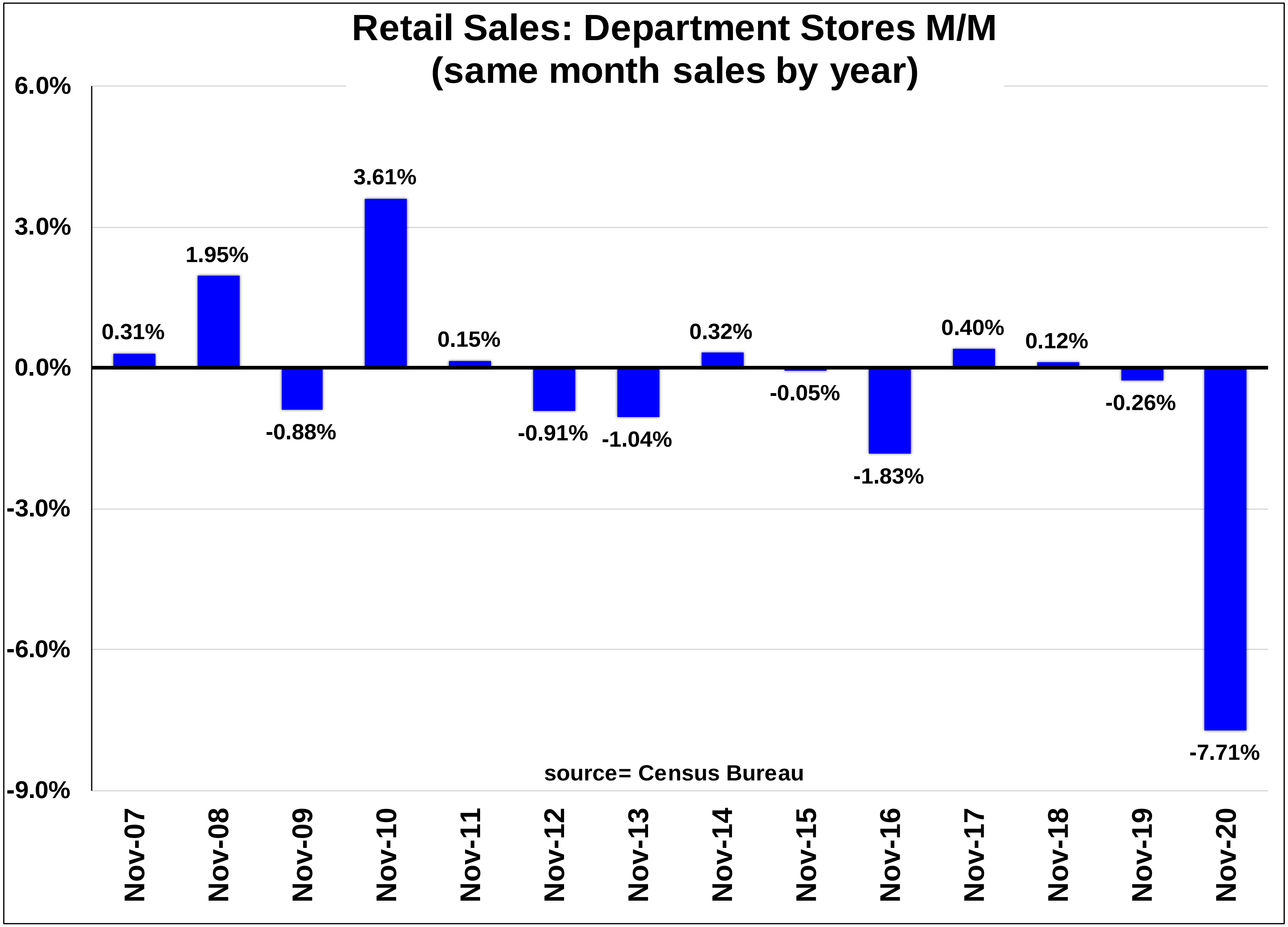
Worst November Retail Sales since the financial crisis



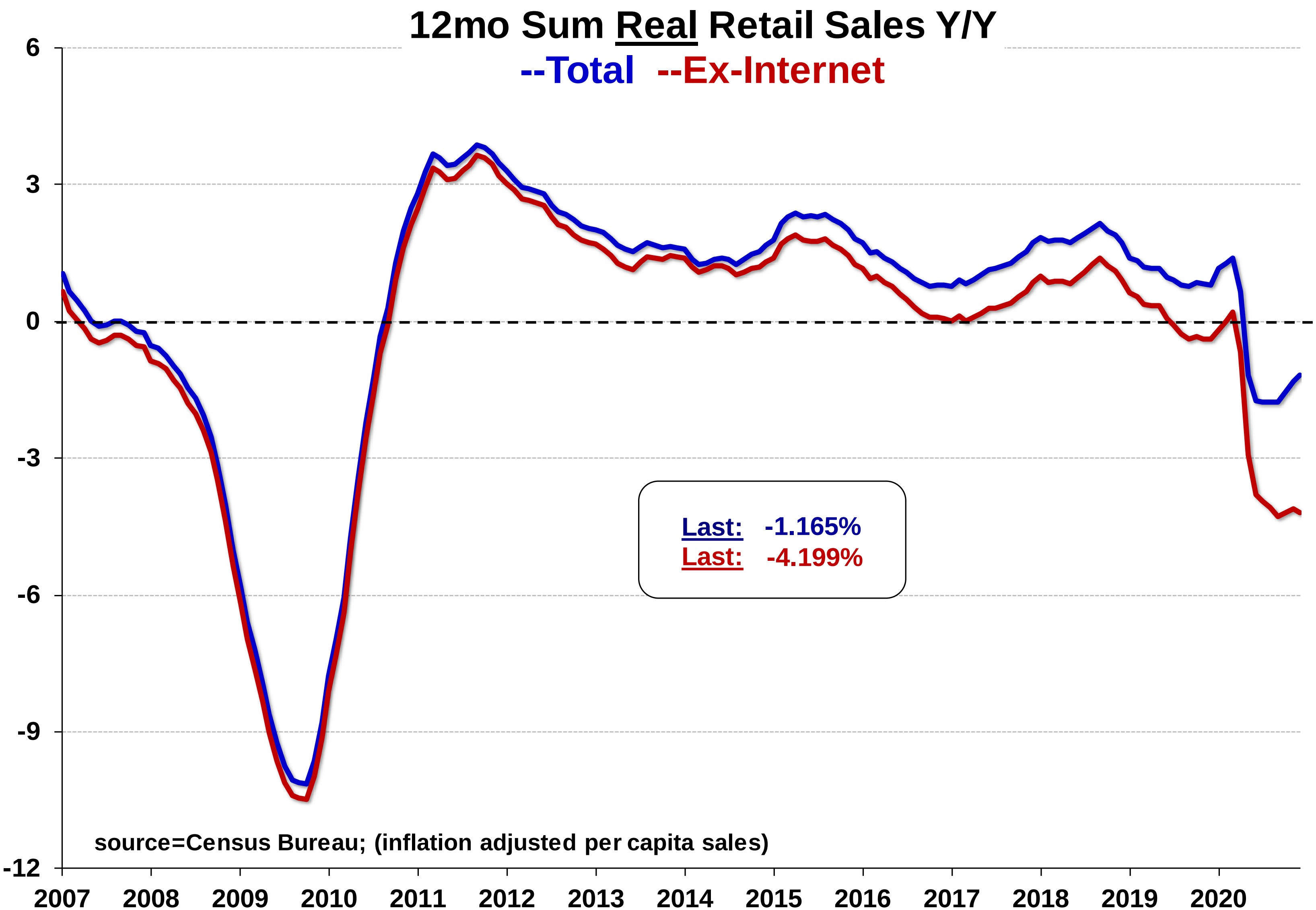
Food Service & Drinking Places Sales tumble -4% m/m. **This is third biggest decline on record (behind March, April), and the biggest November decline on record**



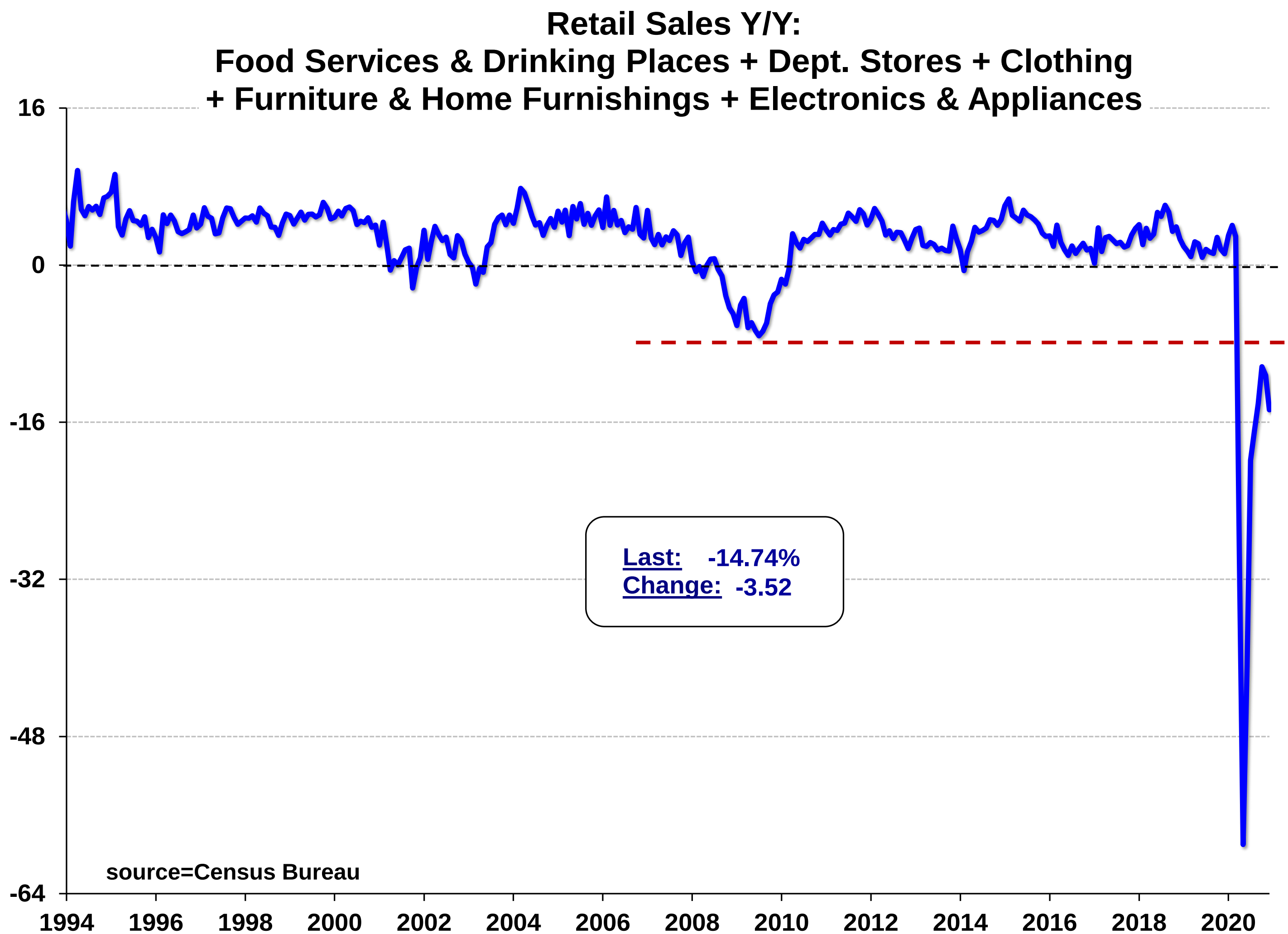
Department Store Sales: tumble -7.7% m/m, drop -6.5pts to -19% y/y. **This is third biggest decline on record (behind March, April), and biggest November decline on record**



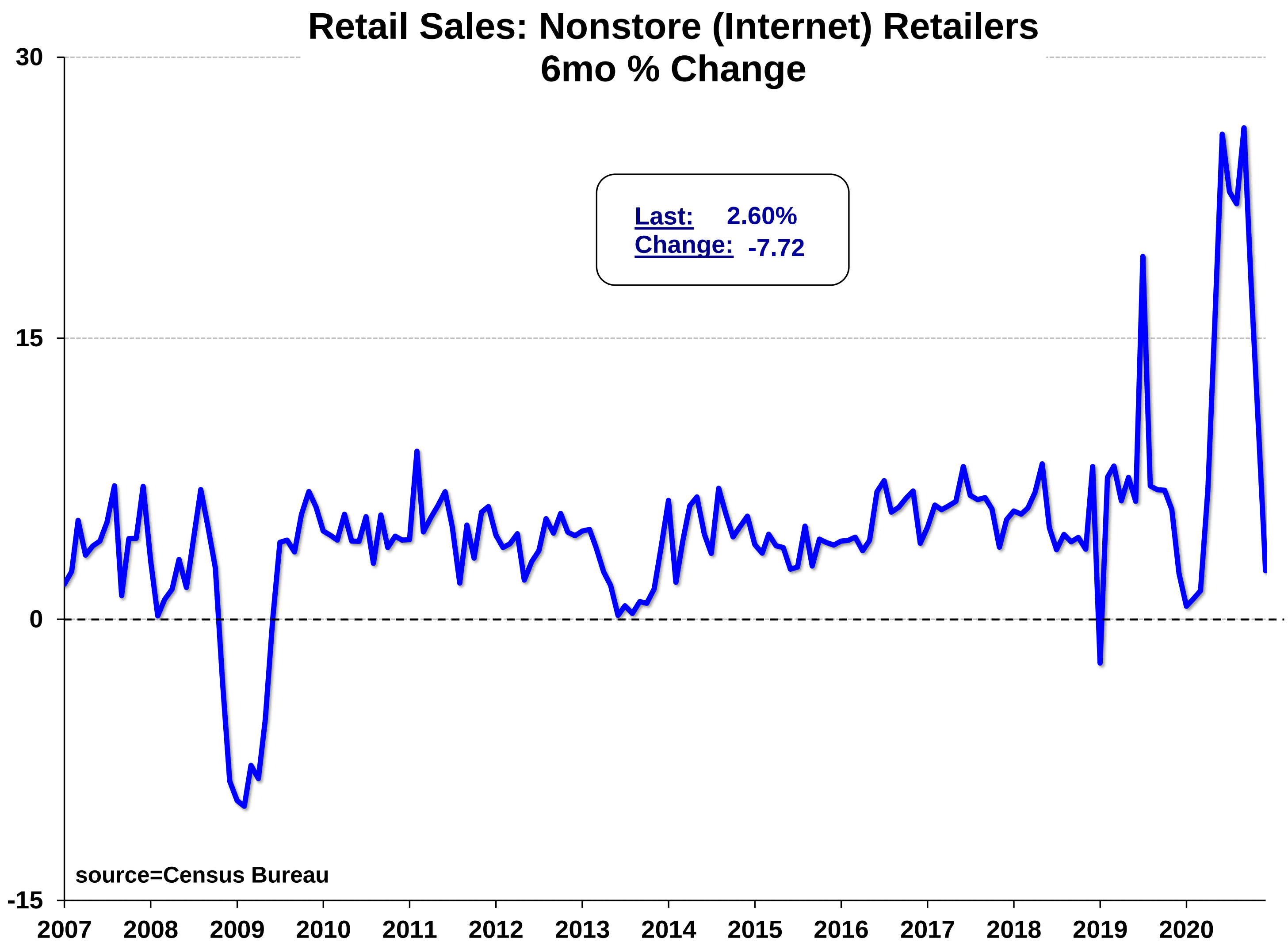
Nominal Retail Sales dropped -1.4pts to 4.1% y/y.
Real Retail Sales (inflation adjusted per capita) remain negative at -1.6% y/y



The Incredible Disappearing Consumer: looking at just 5 key consumer categories, we find y/y Retail Sales deep in recession territory. In fact, **they have spent 9 straight months *BELOW* the worst of the GFC reading of -7.2% y/y. These are disastrous numbers never seen before.** It is abundantly clear the continued lockdowns are wrecking havoc on the economy, and small business in particular. Should they continue for just a few more months, it seems likely a negative monthly payroll print is just around the corner.

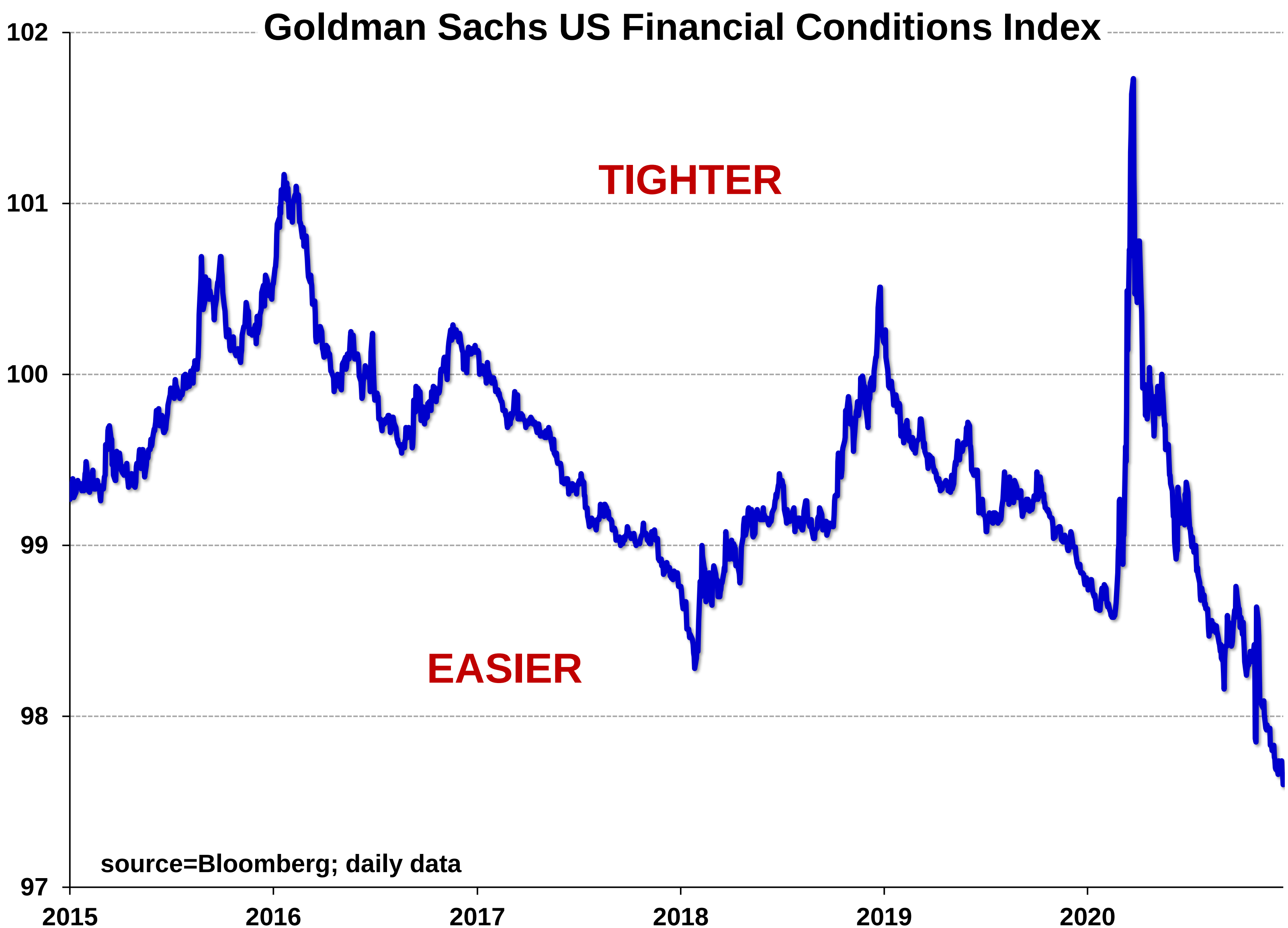


While some may point to strong Internet Sales as a sign things aren't so bad, total sales dropping most since the March/April period (with some categories see 3rd biggest drop on record) is a clear sign of consumer stress / future uncertainty. In short: we should not be seeing terrible numbers like this during the early stages of a recovery. Also important to note: Internet Sales growth is slowing considerably…

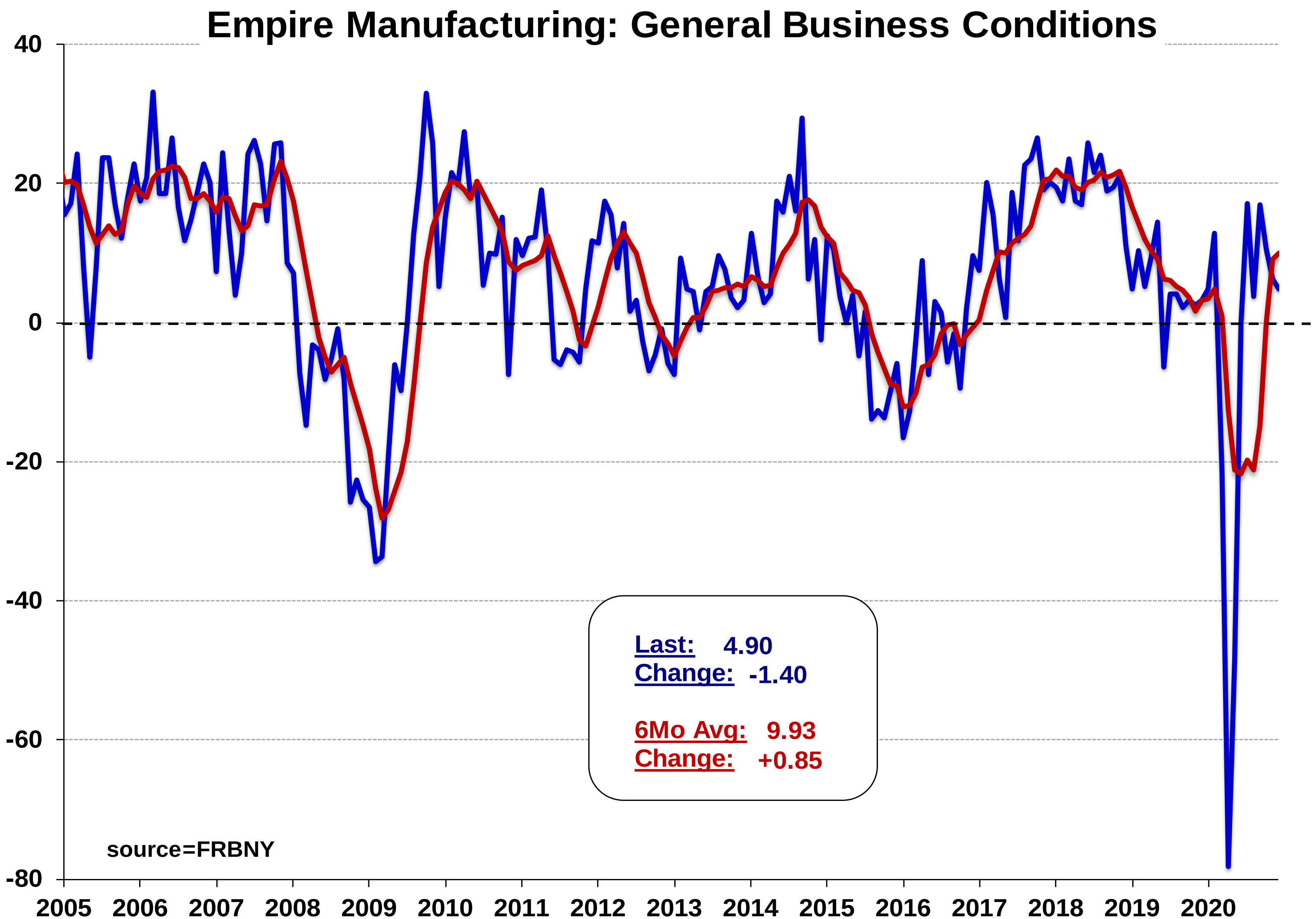


S&P 500 Price/Sales Ratio has spent 23 straight weeks in record territory above dot-com bubble highs

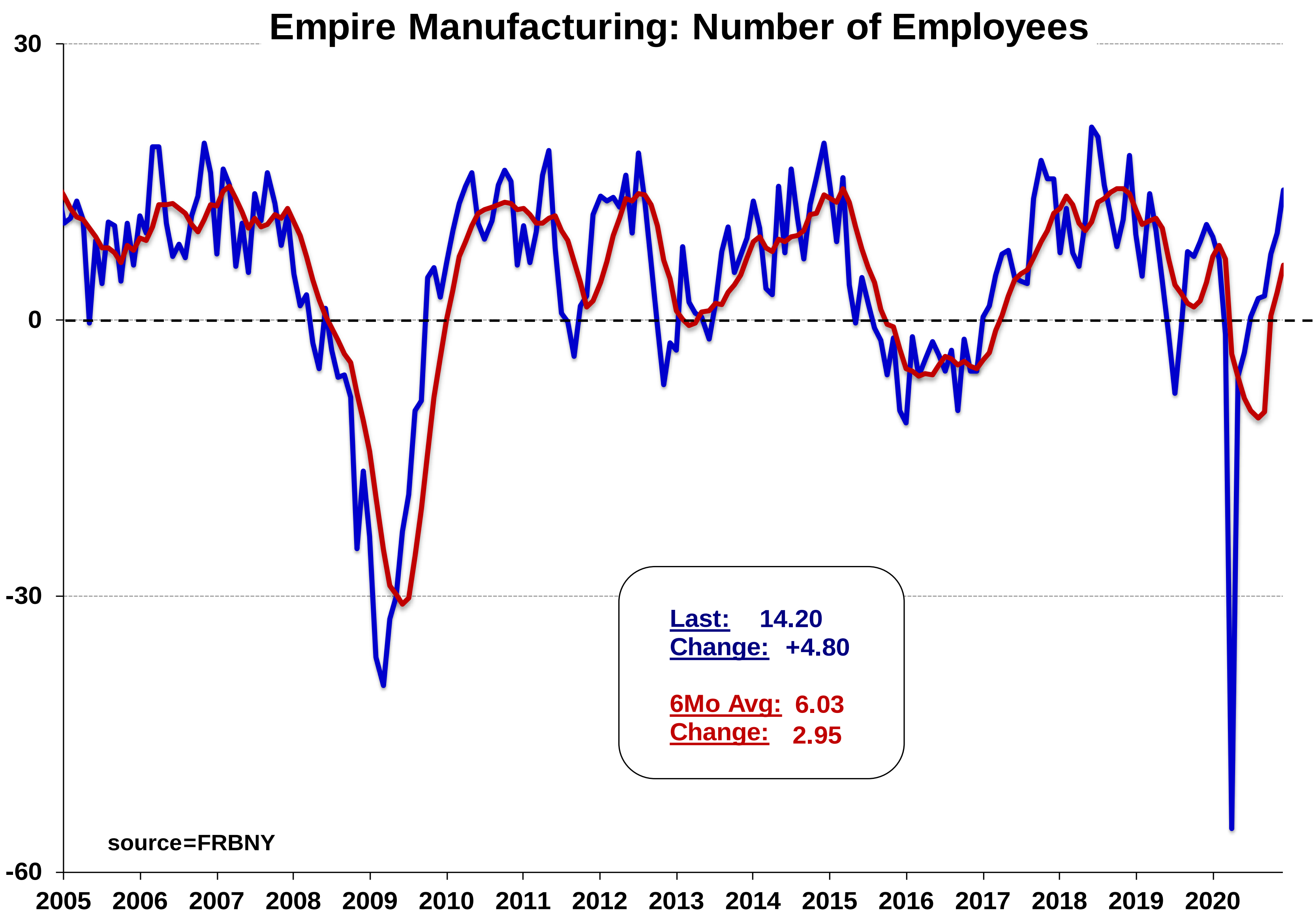
…as Financial Conditions now easiest on record



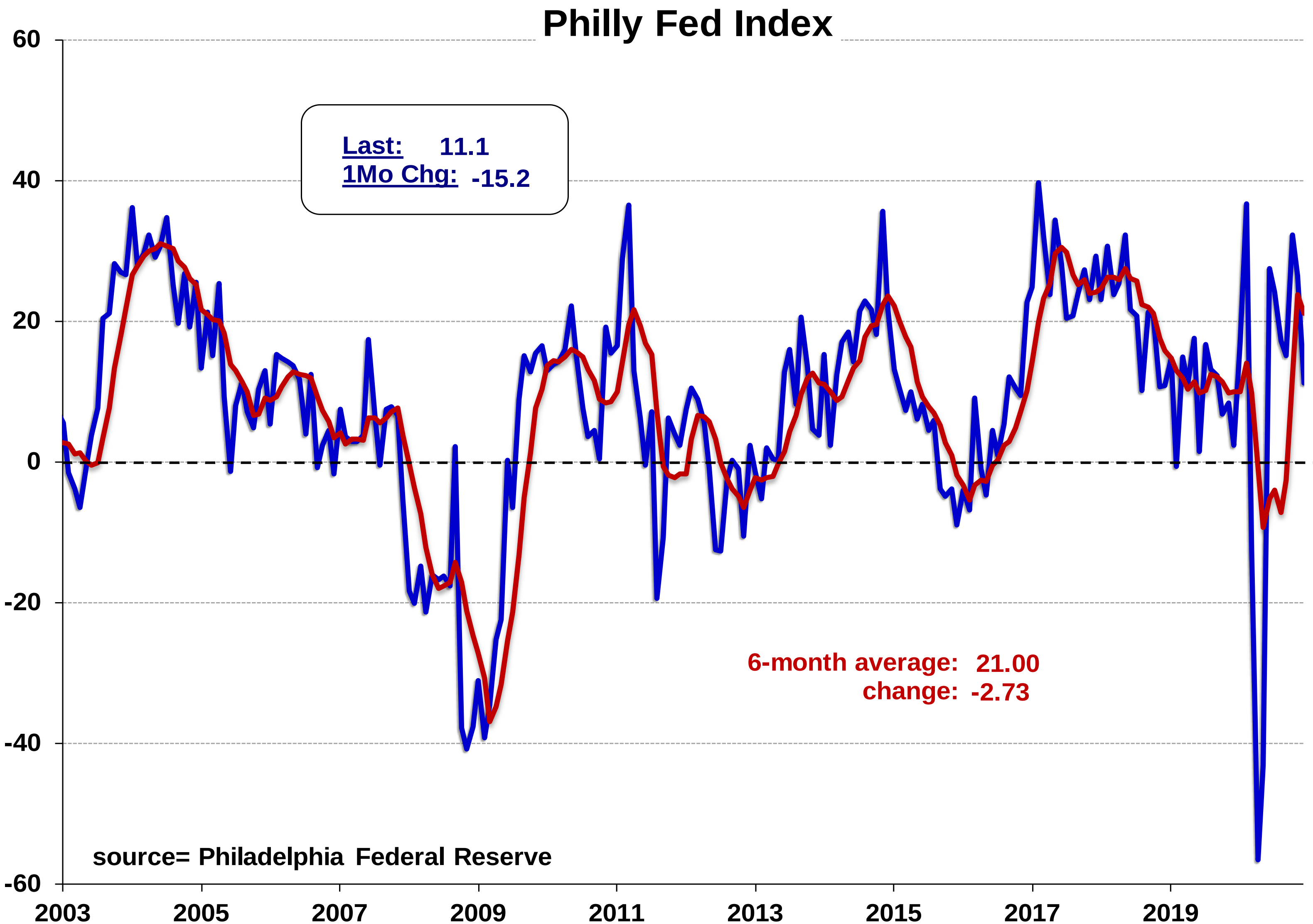
Empire Fed misses expectations: -1.4pts to 4.9 vs expectations of unchanged at 6.3; 6mo average continues higher. Good news in the report: Shipments rise +5.8pts to 12.1 and 6mo average continues higher



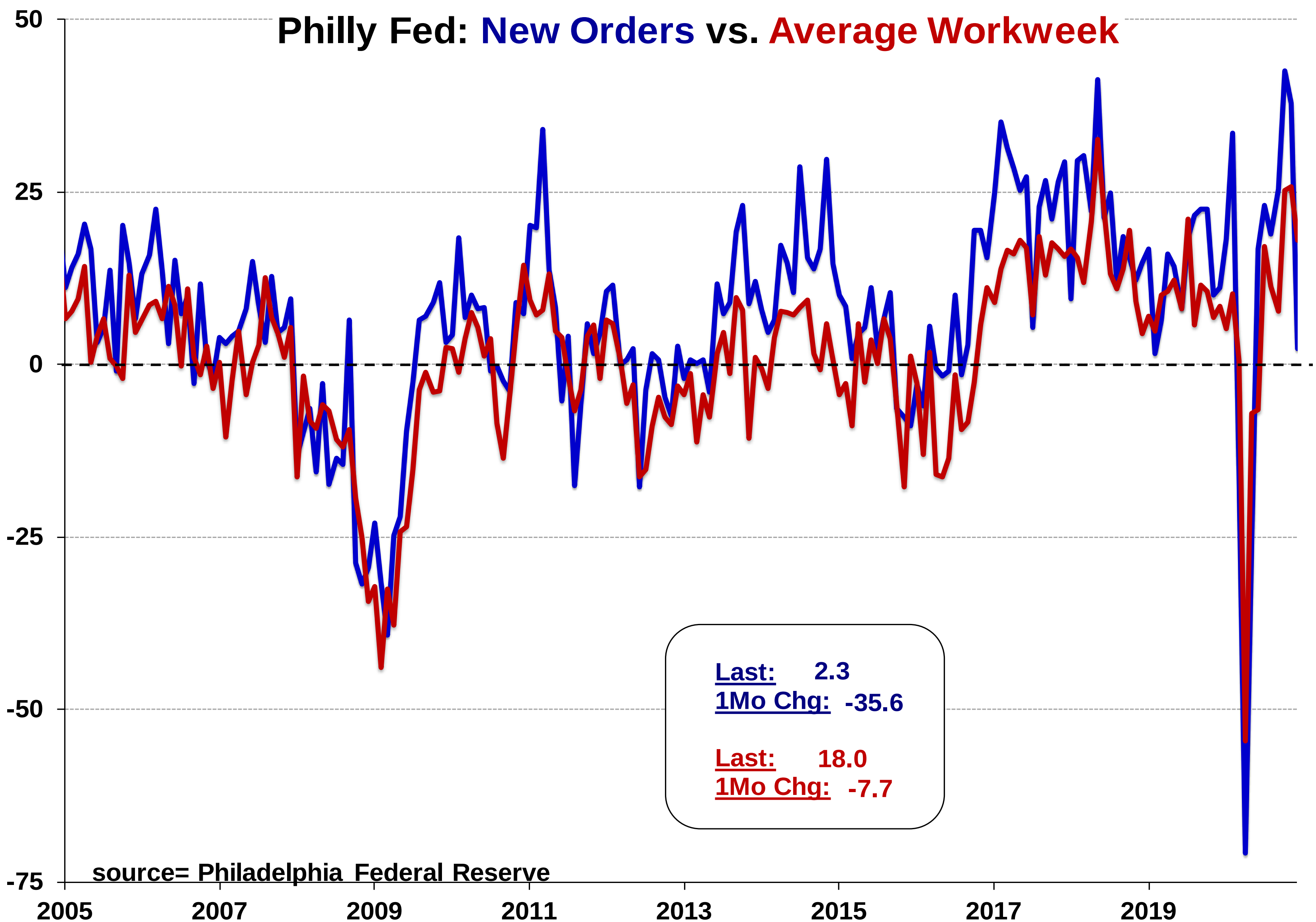
Good news: Employment index rises 4.8pts to 14.2, highest since Dec. 2018



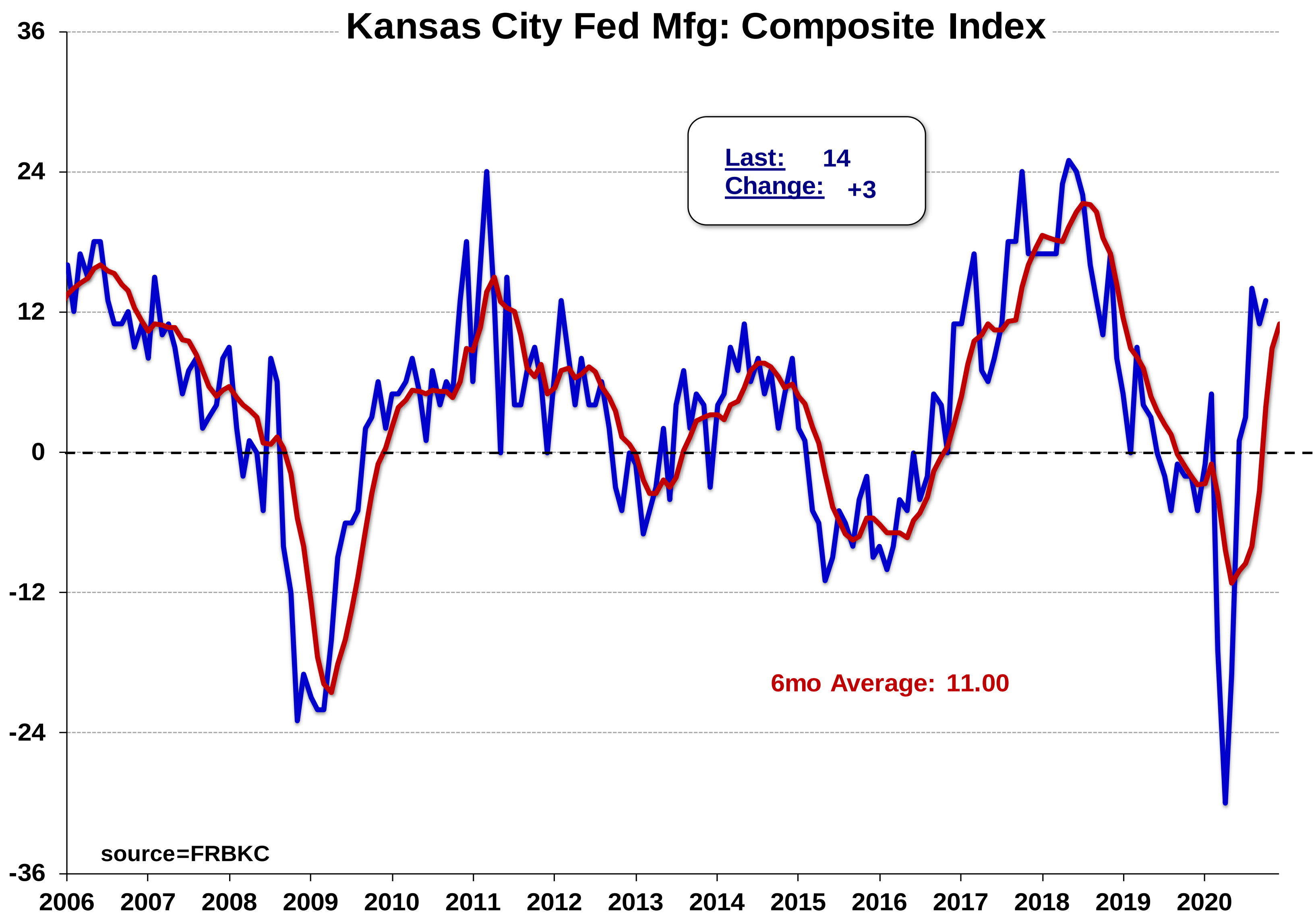
December Philly Fed posts big miss, tumbles to lowest since May as New Orders crash. Composite index tumbles -15.2pts to 11.1 vs. expectations of -6.3pt drop to 20 (11.1 is lowest since May, which was a negative print)



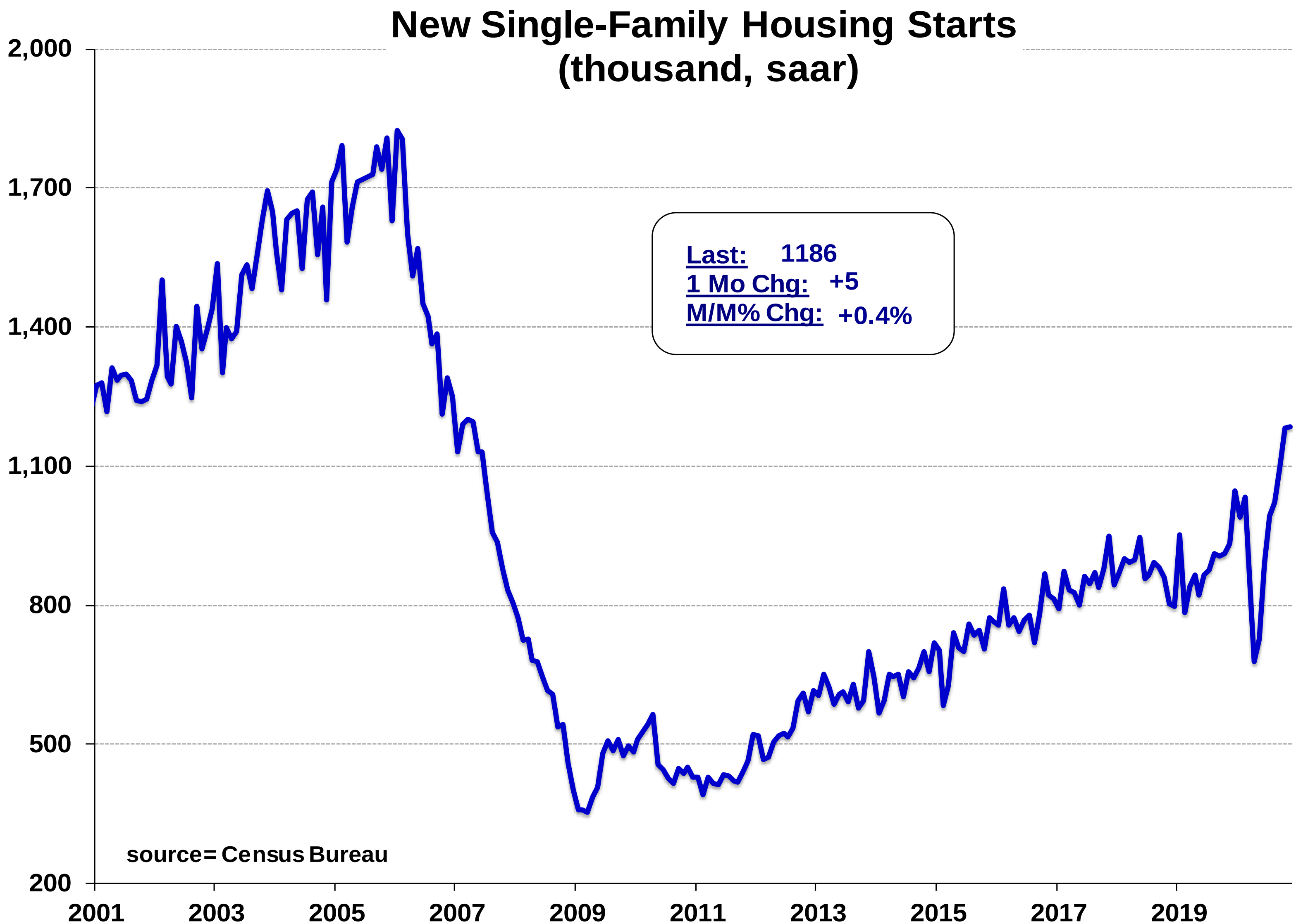
Philly Fed New Orders implode -35.6pts to 2.3, lowest since May which was a negative print (-25.7)



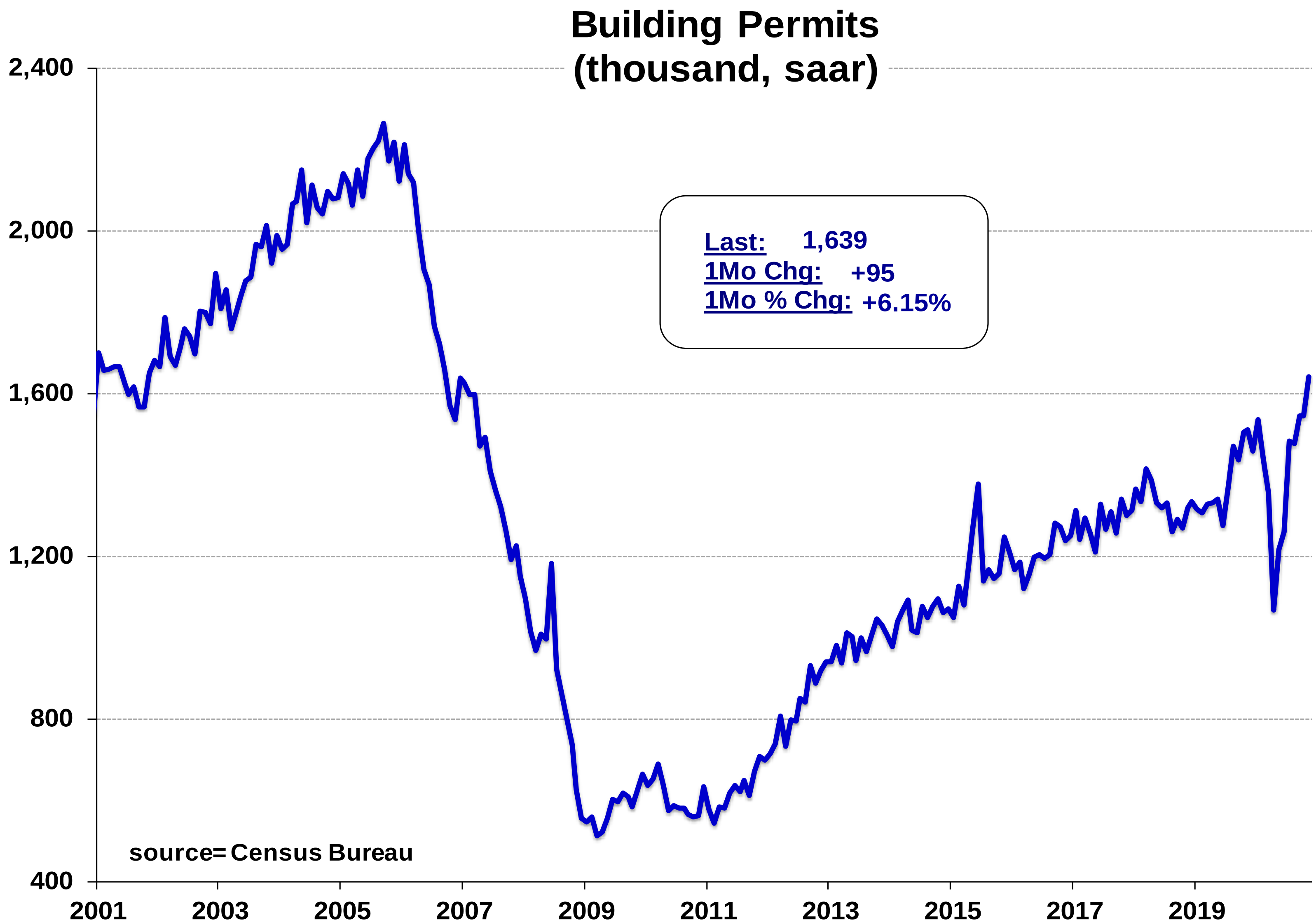
Kansas City Fed Manufacturing beats expectations: +3pts to 14 vs. expectations of 2pt drop to 9; 6mo average continues higher. Good news: Shipments index jumps 14pts to 17; 6mo average continues higher to 13.5



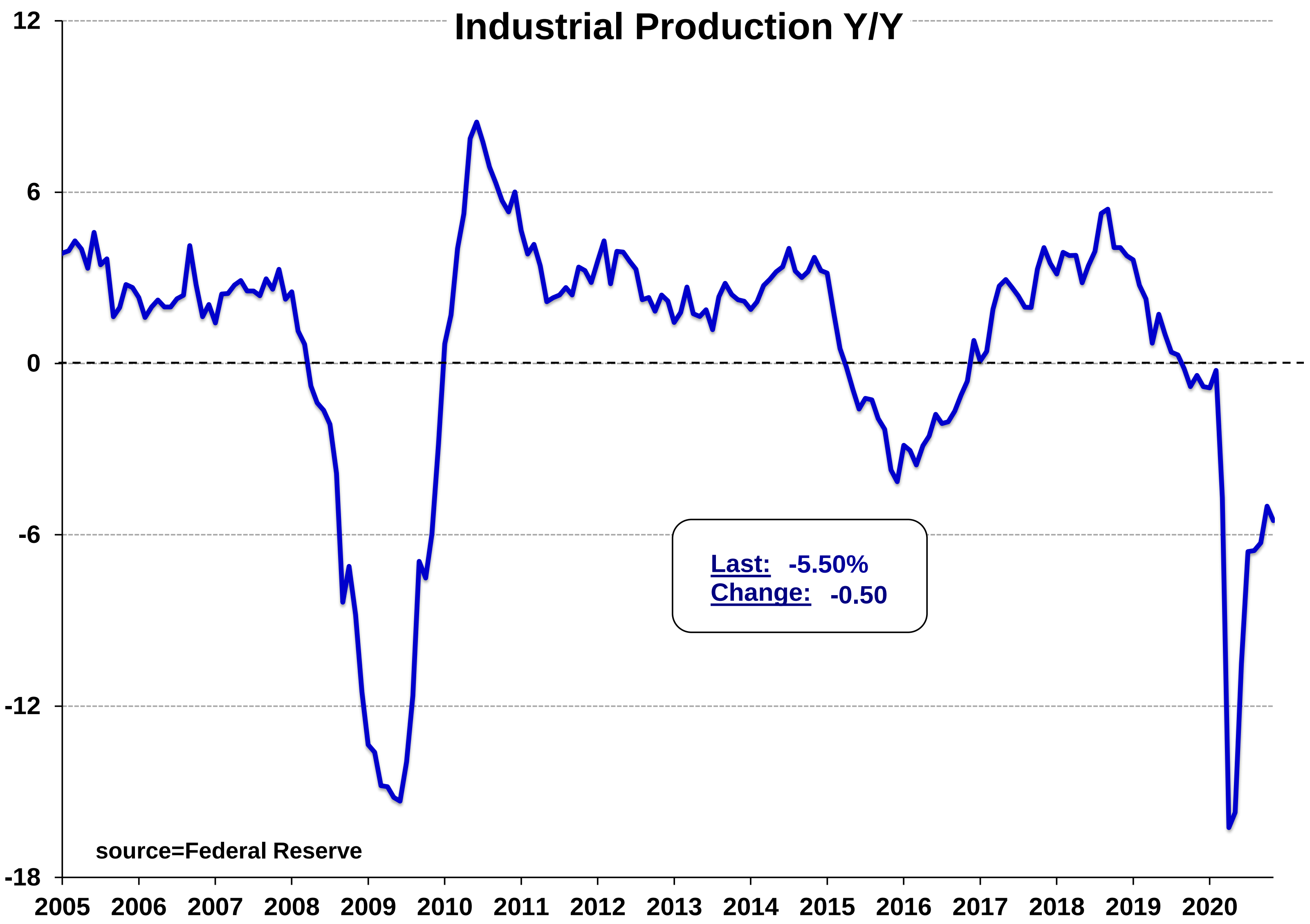
Housing activity continues to be a bright spot:
New Single-Family Housing Starts rise +0.4% m/m to 13yr high



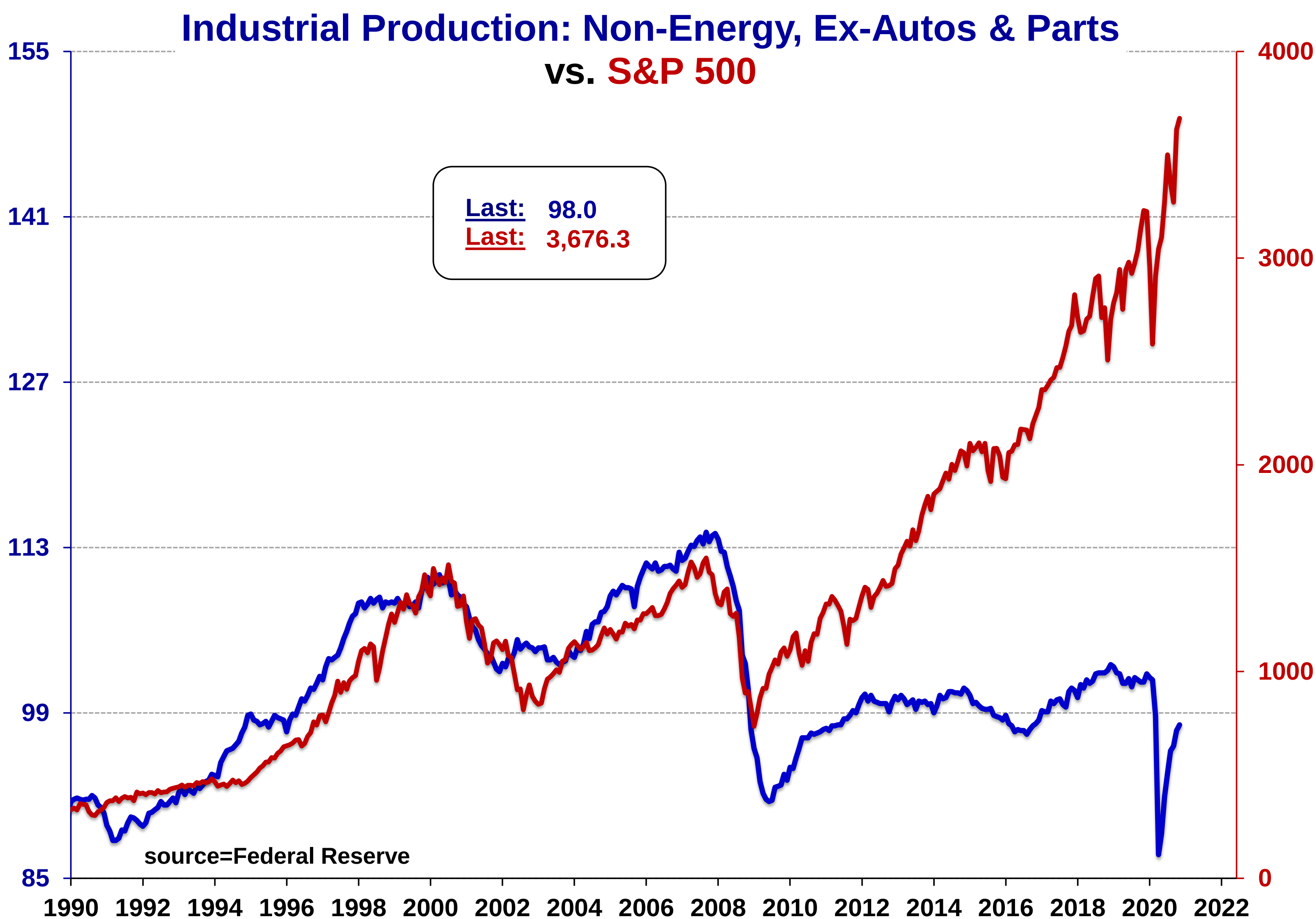
Building Permits jump 6.2% m/m vs. expectations of +1% (1639k vs. expectations of 1560k).
This is highest level of permits in over 14yrs



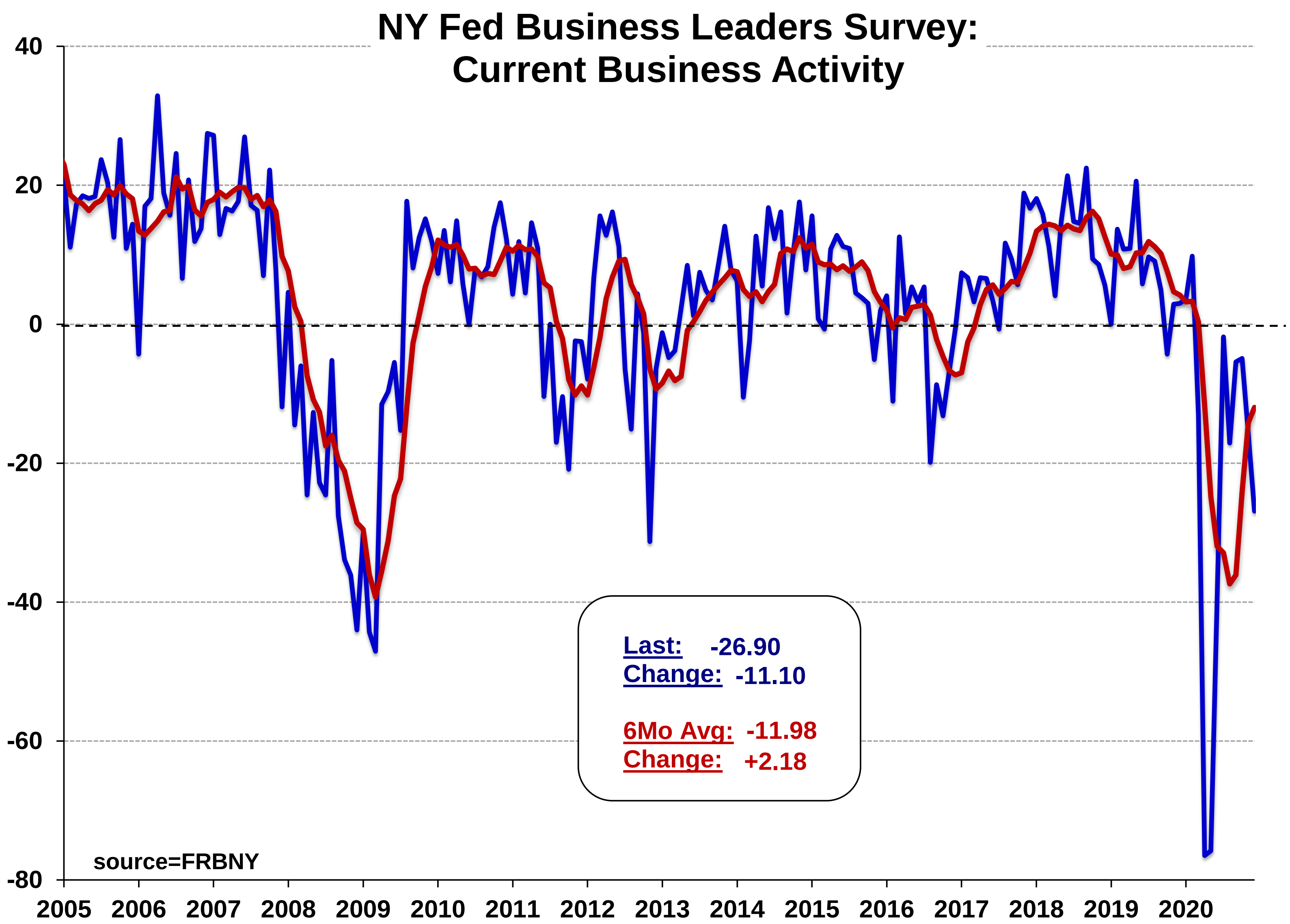
November Industrial Production: +0.4% m/m vs. expectations of +0.3%; down -5.5% y/y (recession level)



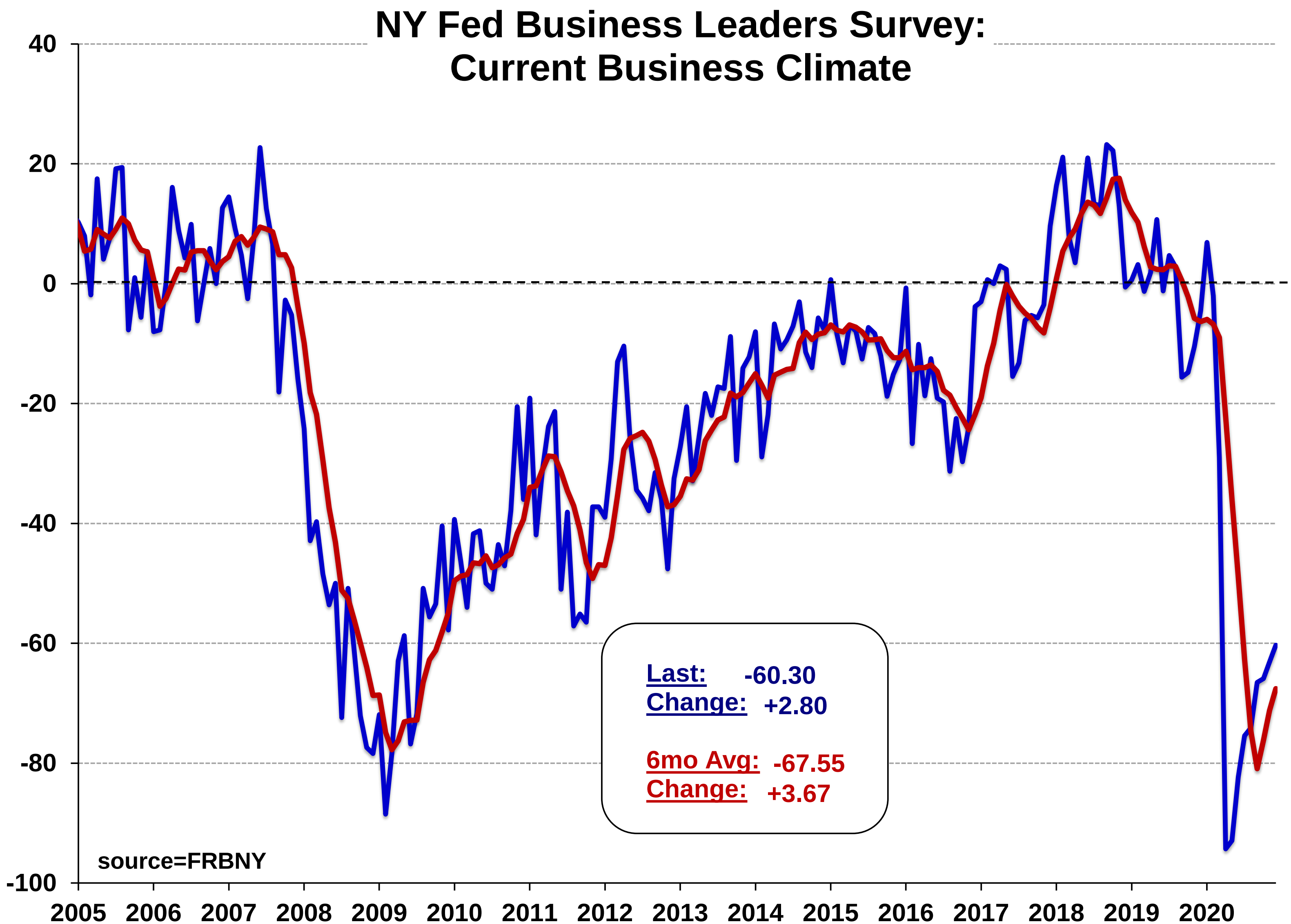
Industrial Production Ex-Autos & Energy: rises for 6th straight month, however still down -14.2% from 2007 high.
Alternate chart title: *The Stock Market Is Not The Economy*



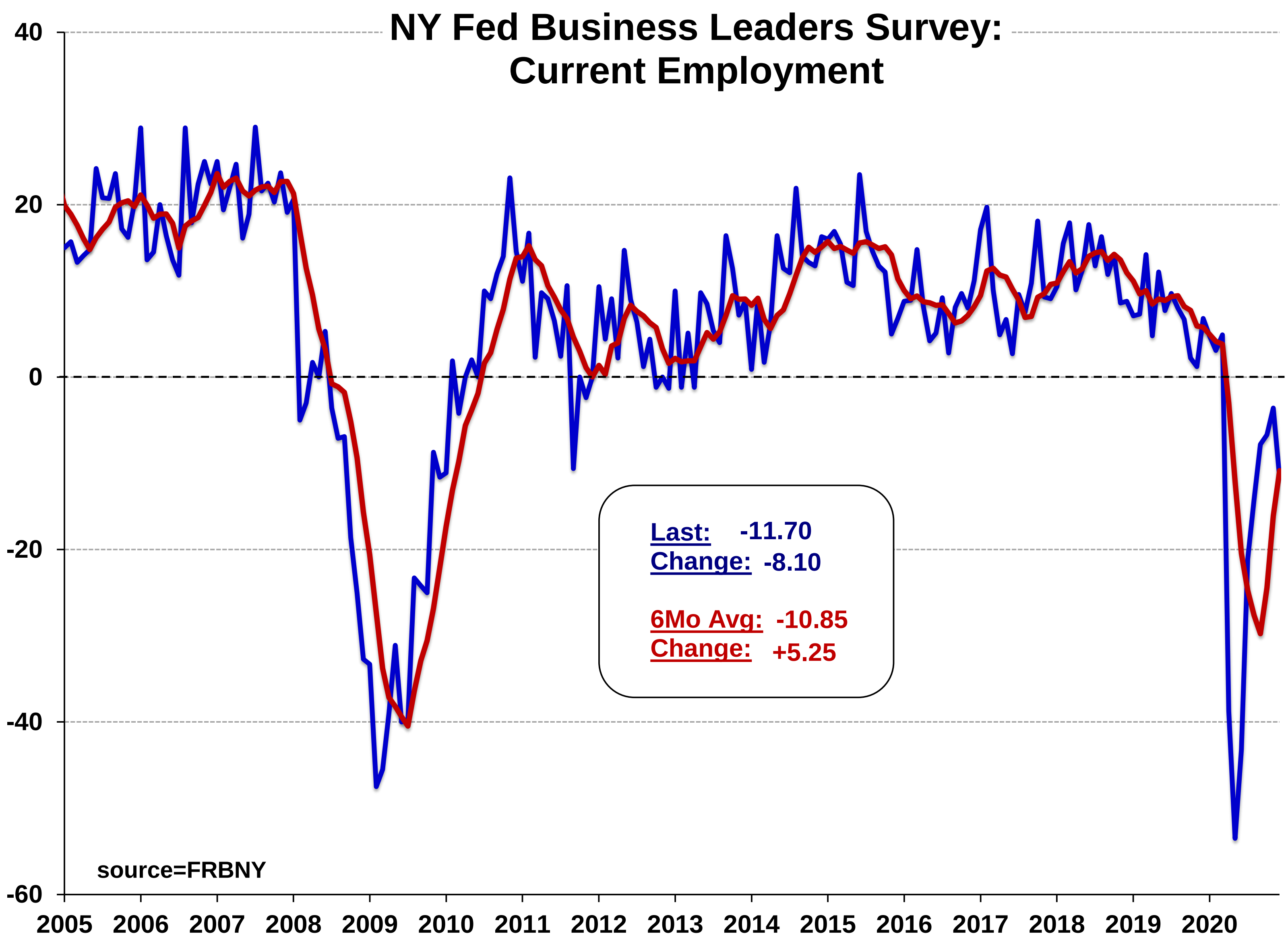
Business Leaders Survey (December) shows current Activity turning lower again for 2nd straight month… -11.1pts to -26.9. The fact this has not even touched expansion territory yet is a worrisome sign.



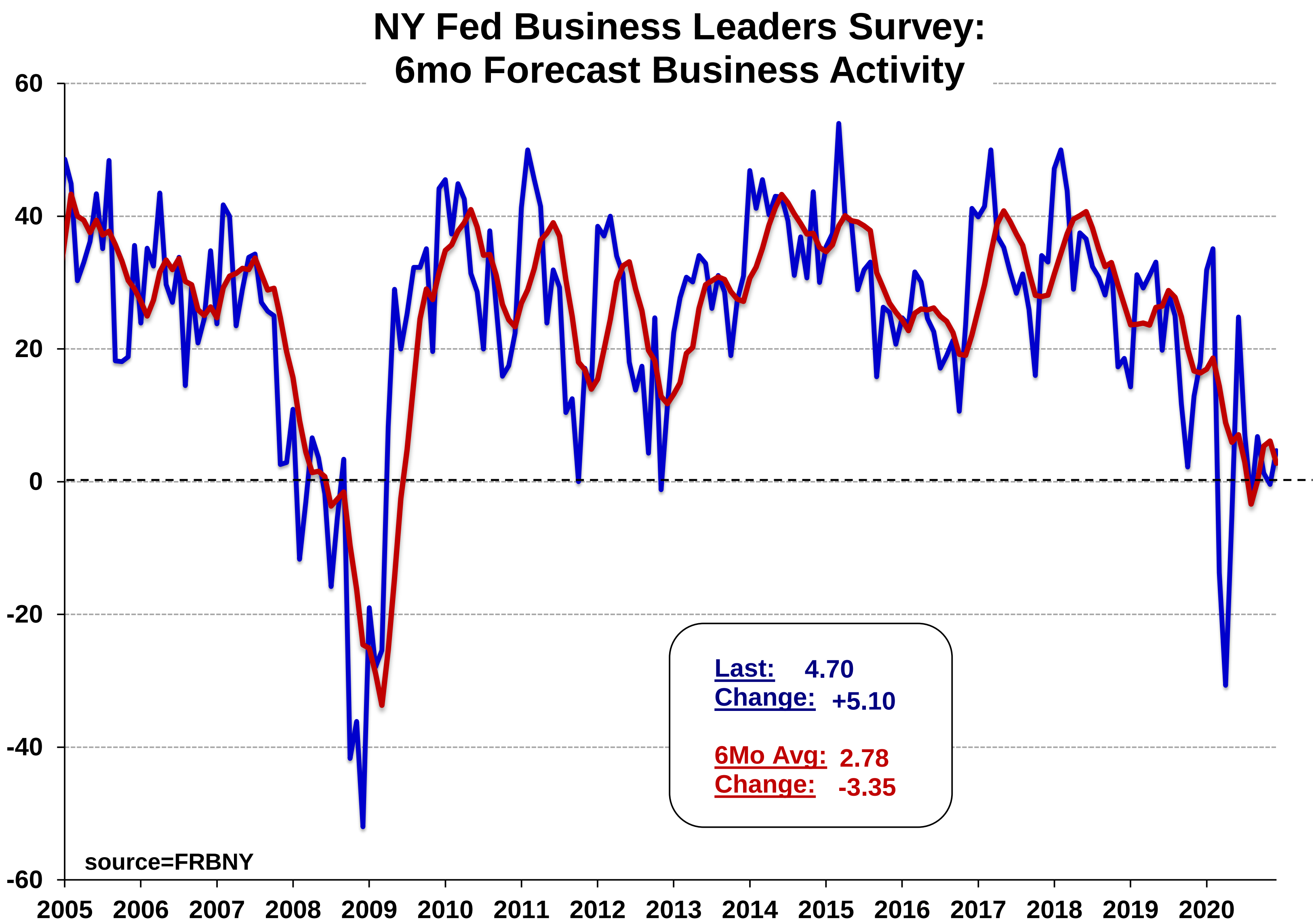
Current Business Climate remains decidedly negative, having barely bounced off April record low



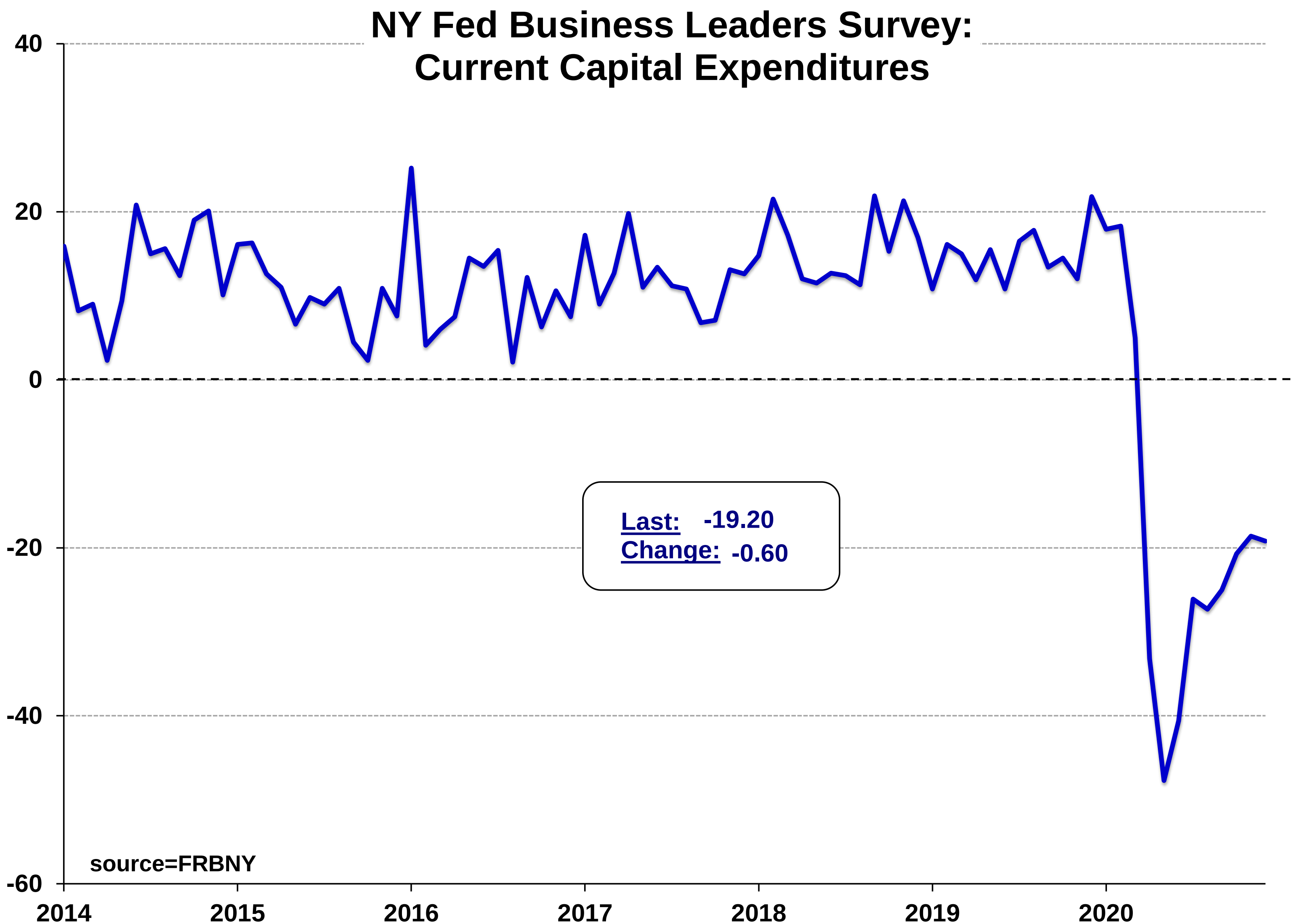
Employment turns lower again, first decline since April



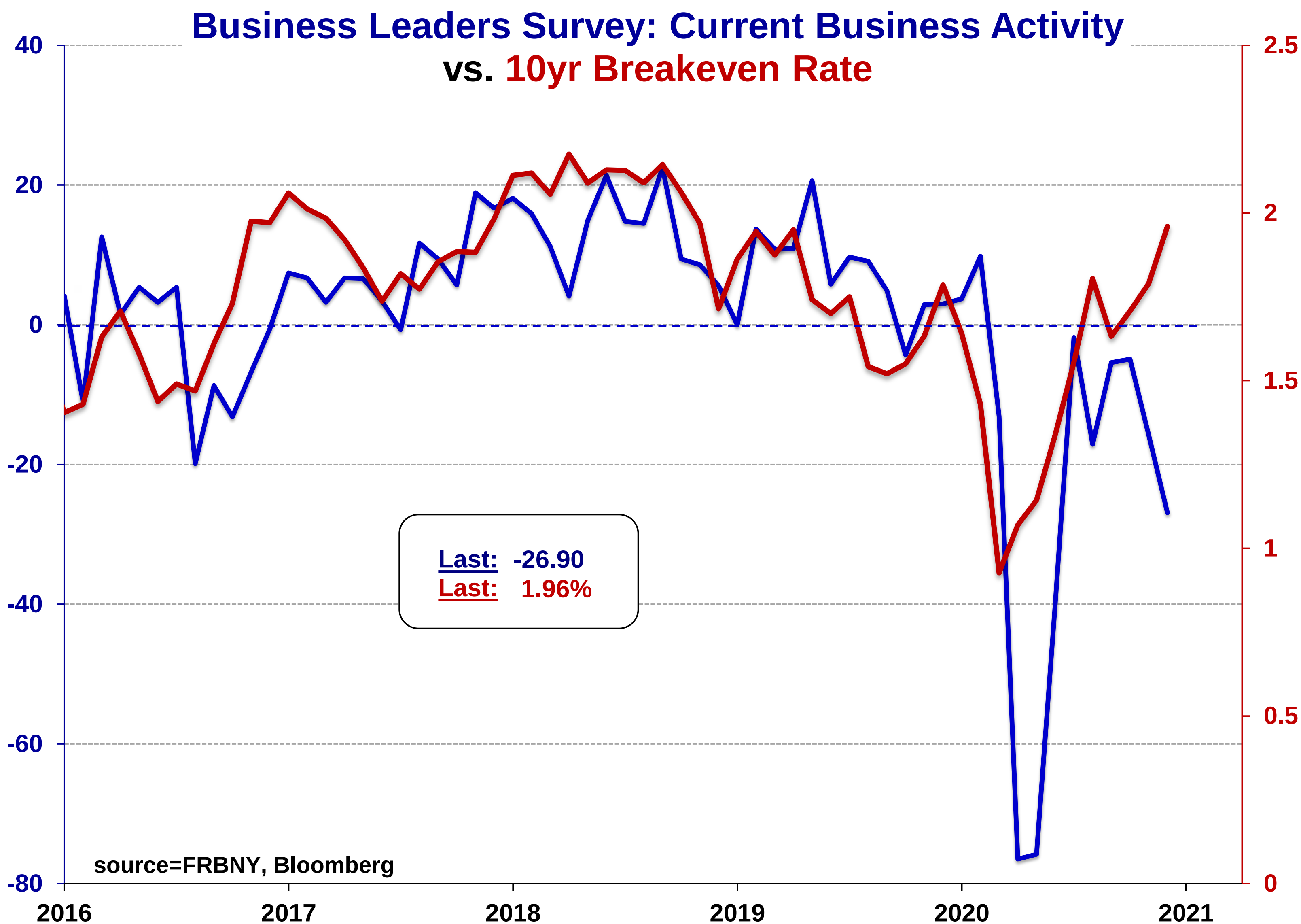
Economic Activity expectations stuck at recession levels and trending lower



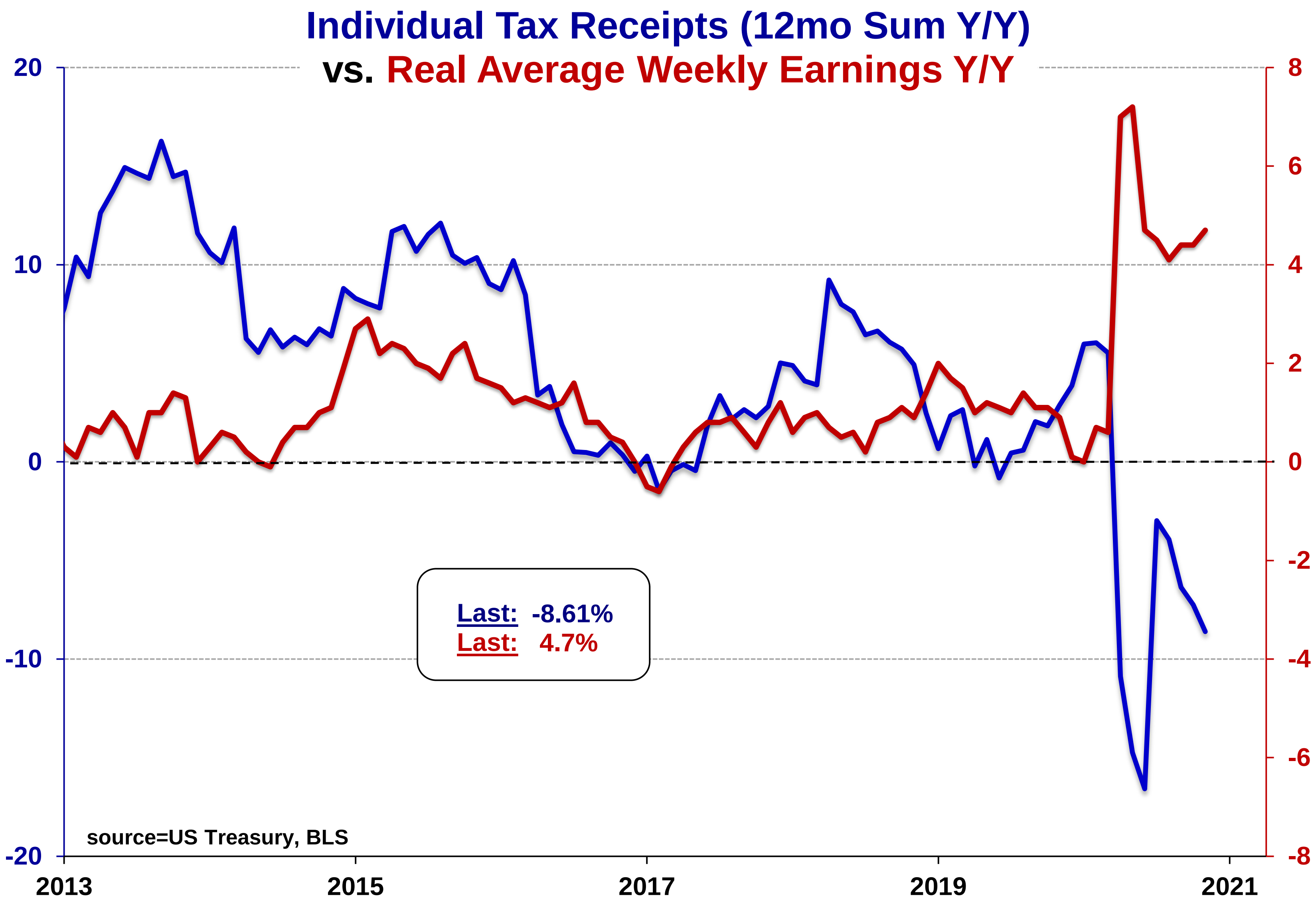
Capital Expenditures stuck in recession territory, suggesting high degree of economic uncertainty



Inflation expectations rising, however deflationary storm clouds are clearly gathering



Real Earnings rising (for those with work), however Lowest Labor Participation in 40+ years is reflected loud and clear in tax receipt data.



As we noted a couple months ago, the eviction moratorium (set to be lifted at start of 2021) will be a big issue, now in the headlines as year-end draws near. However, there is a possibility evictions may be less than the ~15 million expected, yet the market may take a hit as a result. The two may be intertwined to a degree. What if a large number of those who received (overly-generous, as has been reported) stimulus checks also stopped paying rent…and used this extra 'income' to open trading accounts. One would think they would sell their stock holdings (which may be leveraged positions) to pay back-rent owed at the start of the year, or of course face eviction. If they choose to pay back-rent, this could produce downside market pressure in next 2-3 weeks as (perhaps millions) of traders unwind their positions. If this IS the case, one would expect retail favorites (see: FAANG+ names) to bear the brunt of the selling. The upside is the eviction crisis may be muted to some degree, however market volatility would no doubt spike. Stay tuned.

Many Americans used part of their coronavirus stimulus check to trade stocks

The pandemic isn't slowing anything down for Robinhood, the stock trading app popular with millennials. In fact, Robinhood saw its popularity surge in 2020, adding 3 million customers in just four months. Robinhood currently has 13 million users, up from 1 million in 2016.

According to an SEC filing, Robinhood made $180 million in the second quarter. In the first quarter, it made $91 million. The majority of Robinhood's revenue comes from options trading, which experts say can be risky, especially for amateur investors.

Robinhood reported 4.31 million daily active trades for June, well ahead of rivals like E-Trade, which reported about a quarter as many for the month.

The company attributes its rise in popularity amid the pandemic to a volatile market that attracts traders, and the work-from-home environment which has individuals at home with more time on their hands. The average Robinhood user is 33 years old.

article link:

https://www.cnbc.com/2020/05/21/many-americans-used-part-of-their-coronavirus-stimulus-check-to-trade-stocks.html