



## MORNING BRIEFING

June 16, 2021

### Credit & Wealth

Check out the accompanying [chart collection](#).

(1) Jamie Dimon's warning and positive spin. (2) Credit card debt and business loans are down. (3) Loan losses are MIA. (4) Corporations have lots of bonds and lots of cash. (5) Lots of homeowners with lots of homeowners' equity. (6) Household net worth rose to a record high along with equities values and home prices during the pandemic. (7) The 1% have been getting wealthier faster thanks to their equity portfolios. (8) Residential real estate and pension entitlements are more equitably distributed. (9) The Millennials will inherit lots of wealth. (10) Billionaires aren't like the rest of us.

**Credit I: Jamie's Bank.** The Morgan Stanley Financials Conference started on Monday. The message so far is that loan demand is weak.

JP Morgan's Jamie Dimon warned investors that his bank's net interest income for the year would be \$52.5 billion, down from the previous guidance of \$55.0 billion, noting the weakness in the credit card business. But his spin was positive: "I don't look at that as bad. I think the consumers are unbelievably in good shape. ... [T]he pump is primed for the future, and they will borrow again at one point." Dimon said trading revenues would be slightly higher than expected at \$6.0 billion for Q2. He also noted that "if you look at our balance sheet, we have like \$500 billion of cash, and we've actually been effectively stockpiling more and more cash waiting for opportunity to invest at higher rates. So our balance sheet is positioned and will benefit from rising rates, both in the short end and the long run and long rates."

Now consider the following related developments:

(1) *Consumer credit & personal saving.* The macroeconomic data confirm Dimon's assessment of the weakness in consumer credit demand resulting from the strength in consumers' financial position. Consumer revolving credit fell \$139 billion from February 2020 through April 2021 ([Fig. 1](#)). Total consumer credit, which includes student loans and auto loans, rose \$97 billion y/y through April ([Fig. 2](#)). Over the same period, the 12-month sum of personal saving rose to \$3.2 trillion, down slightly from the record high of \$3.5 trillion during March. Most of that saving seems to be sitting in liquid assets, as M2 is up \$3.1 trillion y/y during April ([Fig. 3](#)).

(2) *Loans*. Businesses are also flush with liquidity and don't need to borrow at the banks. Many corporations raised lots of money over the past year in the corporate bond market at record-low interest rates. They refinanced their outstanding bonds and paid off lines of credit at the banks. Loans and leases at all US commercial banks are down \$411 billion y/y through the week of June 2, led by a \$450 billion drop in commercial and industrial loans ([Fig. 4](#)).

(3) *Reserves for losses*. As of the first week of June, all US commercial banks had \$190.5 billion set aside in provisions for loan and lease losses, which turned out to be much less than it was when the pandemic started ([Fig. 5](#)). These provisions are currently \$76.9 billion above the level just before the pandemic was officially declared on March 11 by the World Health Organization. Banks are likely to reduce these reserves for losses in coming quarters, thus boosting their earnings.

(4) *Lots of liquid securities*. The gap between the total deposits of all US commercial banks and their loans and leases was \$6.8 trillion at the start of June, the widest spread on record ([Fig. 6](#)). As a result, US Treasury and agency securities as a percentage of total bank credit rose to a record 26.5% at the start of June ([Fig. 7](#)). That's up from 25.2% at the beginning of this year!

**Credit II: Record Corporate Bond Issuance.** Once the Fed started to backstop nonfinancial corporate (NFC) bonds last spring, NFCs rushed to raise a record amount of cash in the bond market. Let's have a close look at the data recently released by the Fed:

(1) *Corporate bond issuance*. Last year, NFCs raised a record \$1.4 trillion in the corporate bond market ([Fig. 8](#)). That's their gross issuance. Their net issuance was \$741 billion last year, implying that a record \$706 billion refinanced outstanding debt at record low yields ([Fig. 9](#)). The rest of the money raised was used for capital spending and to paydown bank loans, as noted above.

(2) *Corporate bonds outstanding*. The outstanding bonds of domestic NFCs rose to a record high of \$6.7 trillion during Q1-2021 ([Fig. 10](#)). The outstanding bonds of domestic nonfinancial corporations and of those issued by foreigners in the US totaled \$5.1 trillion and \$3.6 trillion during Q1-2021. The total of all domestic corporate and foreign bonds outstanding increased \$0.6 trillion y/y to a record \$8.7 trillion.

Corporations are facing shortages of labor and components. But there is no shortage of

liquidity.

**Credit III: Record Homeowners' Equity.** Jamie Dimon is right about consumers: They are in great financial shape. Contributing to this development has been soaring home prices resulting for various reasons from the pandemic. Again, let's have a close look at the relevant data recently released by the Fed:

(1) *Lots of homeowners.* During Q1-2021, there was a total of 126.3 million households in the US with a record 84.2 million owning their homes and 42.1 million renters ([Fig. 11](#)).

(2) *Lots of homeowners' equity.* The total value of homes was up \$3.2 trillion and 10.3% y/y to a record \$33.8 trillion during Q1-2021 ([Fig. 12](#)). Home mortgage loans rose \$498 billion y/y to \$11.0 trillion. As a result, total owners' equity rose \$2.7 trillion and 13.2% y/y to a record \$22.7 trillion.

**US Wealth: As Go Equities, So Goes Wealth Inequality.** The pandemic has worsened wealth inequality in the US. Americans who own equities and homes have prospered as stock and house prices have soared to new record highs. Since the start of last year, the S&P 500 is up 31.7%, while median existing home prices are up 20.3%. Americans who don't own those assets have been left behind. Let's have a close look at the relevant [data](#) from the Federal Reserve's Distributional Financial Accounts showing the totals for each asset class held by households during Q4-2020 and discussing the distribution:

(1) *Net worth of households (\$122.9 trillion).* Net worth has risen across all income groups since the start of the Fed's data ([Fig. 13](#)). However, the wealthier groups have gotten wealthier than the other groups.

From Q4-2019 through Q4-2020, the share of household net worth held by the top 1% of households rose from 31.0% to a record 31.4% ([Fig. 14](#)). Even before the pandemic, wealth inequality was worsening. From Q3-1989 through Q1-2020, the share of wealth of the top 1% of households rose from 23.4% to 31.4%, while everyone else's share fell from 76.6% to 68.6%. The top 10% saw their share of net worth increase from 60.7% to 69.6% over this period.

(2) *Corporate equities & mutual funds (\$33.5 trillion).* The Fed's data show that Americans in the top 1% wealth percentile held 53% of corporate equities and mutual fund shares as of Q4-2020, up from a record low of 40% during Q3-2002 ([Fig. 15](#)). The top 10% held 88.5% of equities and mutual funds owned by all households.

(3) *Noncorporate business equity (\$13.0 trillion)*. The top 10% owns 85% of the value of noncorporate business equity ([Fig. 16](#)). That reflects the cohort's ownership of pass-through businesses including S corporations, sole proprietorships, and partnerships. (The number of these business entities exceeded 35 million in 2017.)

(4) *Real estate (\$32.0 trillion)*. Real estate wealth is held more equitably in America. That's because people in the 1% own only 14.4% of this asset class currently ([Fig. 17](#)). That's close to previous highs in this share. The top 50% percentile of wealth holders owns 87.9% of real estate, while the bottom 50% holds 12.1%.

(5) *Pension entitlements (\$29.5 trillion)*. Another asset class that is owned much more equitably is pension entitlements, with the 1% tending to have a share below 10% ([Fig. 18](#)). The 50%-90% percentile group owns 43.4% of pension entitlements.

(6) *Millennials*. The Fed's data show that Millennials added to their wealth through Q4-2020, but that their share of wealth continues to significantly lag that of their Baby Boomer parents ([Fig. 19](#) and [Fig. 20](#)). That trend is easily explained by the much larger ownership share of corporate equities and mutual funds by Baby Boomers than Millennials ([Fig. 21](#)). Nevertheless, the asset-rich Baby Boomer generation may help to support their Millennial children, both during the Boomers' lifetimes and later on through inheritance.

(7) *Millionaires & billionaires*. The 15 richest Americans have become over \$400 billion richer since the markets bottomed out in March 2020, *Time* observed in an April [article](#). The bull market triggered by unprecedented policy rescue plans has added about \$4.8 trillion of wealth to the richest 1% of American households, excluding real estate and privately held companies. Including those factors, the richest 1% of Americans gained over \$7 trillion in wealth from the end of March to the end of December 2020, *Time* reported.

The total wealth of the world's 2,189 billionaires rose to a record high of \$10.2 trillion during July 2020 as the pandemic raged on. That was well above the previous record of \$8.9 trillion recorded at the end of 2017, an October 2020 study by Swiss bank UBS and accounting firm PwC found, [according to Forbes](#). American billionaires, led by Elon Musk, grew significantly more wealth during 2020, *Forbes* added. Musk saw his wealth increase by 242% over the first eight months of 2020, while Jeff Bezos added \$65 billion to his net worth.

## Calendars

**US: Wed:** Housing Starts & Building Permits 1.630mu/1.730mu, Import & Export Price Index 0.8%/0.8%, MBA Mortgage Applications, Crude Oil Inventories, Fed Interest Rate Decision, FOMC Meeting Minutes. **Thurs:** Leading Indicators 1.3%, Initial & Continuous Jobless Claims 359k/3.43m, Philadelphia Fed Manufacturing Index 31.0, Natural Gas Storage. (Bloomberg estimates)

**Global: Wed:** UK Headline & Core CPI 1.8%/1.5% y/y, UK PPI Input & Output 10.6%/4.5% y/y, Canada Headline & Core CPI 3.5%/2.4% y/y, China Retail Sales 13.6% y/y, China Industrial Production 9.0% y/y, China Fixed Asset Investment 16.9% y/y, Australia Employment Change 30k, Australia Unemployment & Participation Rate 5.5%/66.1%, Lowe. **Thurs:** Eurozone Headline & Core CPI 2.0%/0.9% y/y, Japan Core CPI 0.1% y/y, BOJ Rate Decision -0.10%. (Bloomberg estimates)

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## Strategy Indicators

**S&P 500 Buybacks** ([link](#)): S&P 500 quarterly buybacks rose 36.4% q/q during Q1-2021 to \$178.1 billion from \$130.6 billion during Q4-2020. That's up from a 22-quarter low of \$88.7 billion during Q2-2020, when companies were seeking to preserve cash amid the highly uncertain economic outlook caused by Covid-19. Q1's buybacks level was 20.1% below the record high of \$223.0 billion during Q4-2018. The four-quarter sum of buybacks was down for an eighth straight quarter for the first time since it fell for eight quarters through Q4-2009. It fell 4.0% q/q to a 29-quarter low of \$499.2 billion from \$519.8 billion, and is down 39.4% from a record high of \$823.2 billion in Q1-2019. S&P 500 buybacks as a percentage of the S&P 500's total market capitalization improved to 0.53% in Q1-2021 from 0.41% in Q4-2020. That's up from an 11-year low of 0.35% during Q2-2020, and compares to a recent 29-quarter high of 1.06% in Q4-2018 and the record high of 1.28% during Q3-2007.

**S&P 500 Sectors Buybacks** ([link](#)): Buybacks rose q/q during Q1-2021 for nine of the S&P 500's 11 sectors and fell for just two, Real Estate and Utilities. Among the 11 sectors, only Consumer Staples has returned to pre-pandemic levels, but Tech is close. Financials is rebounding quickly now, but Energy remains depressed near record lows. The Tech sector accounted for 31.6% of the S&P 500's buybacks in Q1-2021, the most of any sector. Financials' 19.9% share of the buyback total was up from 10.4% in Q4-2020, just below its average 22% in the two years before Covid-19.

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## US Economic Indicators

**Retail Sales** ([link](#)): Retail sales contracted in May, likely reflecting a switch by consumers from goods-related to service-related spending as vaccinations enabled them to travel and attend entertainment venues again. Still, retail sales remains in record territory. Headline retail sales declined 1.3% last month, but that followed a 12.3% surge during the two months ending April to a new record high. Sales are up 51.3% since bottoming last April. Meanwhile, core retail sales—which excludes autos, gasoline, building materials, and food—dipped slightly, by 1.1%, during the two months ending May from March's record high. Of the 13 retail sales categories, five increased while eight contracted, with food services & drinking places, clothing & accessories, and health & personal care retailers posting new record highs last month. Here's a snapshot of the sales performances of the 13 categories during May, and versus last April's bottom: clothing & accessories (3.0% m/m & 790.2% y/y), health & personal care (1.8 & 27.1), food services & drinking places (1.8 & 124.8), food & beverage stores (1.0 & 3.0), gasoline stations (0.7 & 77.1), nonstore retailers (-0.8 & 14.7), sporting goods & hobby stores (-0.8 & 155.3), furniture & home furnishings (-2.1 & 194.3), general merchandise (-3.3 & 18.0), electronics & appliance stores (-3.4 & 131.7), motor vehicles (-3.7 & 99.4), miscellaneous store retailers (-5.0 & 76.4), and building materials & garden equipment (-5.9 & 24.1).

**Business Sales & Inventories** ([link](#)): Nominal business sales in April soared to yet another record high, while real business sales (reported with a lag) rebounded to a new record high in March after contracting in February. Nominal business sales climbed 0.6% in April, building on March's 5.8% rebound from February's 1.6% shortfall—which was the first decline in 10 months. Real business sales rose for the second time this year, rebounding 3.9% in March from February's 3.0% decline; it's up 4.0% ytd. Real sales of both retailers and wholesalers jumped to new record highs in March, while real manufacturing sales slumped 3.8% during the two months through March. April's nominal inventories-to-sales ratio sank to 1.25, a tick above its record low of 1.24 posted in March 2011; it was at 1.73 last April. Meanwhile, the real inventories-to-sales ratio for March dropped to 1.30, a tick above its record low of 1.29 in the early 1970s; it had soared to a record high of 1.66 last April.

**Regional M-PMIs** ([link](#)): The New York Fed gives the first glimpse of manufacturing activity in June and shows growth in the region continued to expand at a robust, though slightly slower, pace than in May, while both price components eased a bit from May's record rate.



The prices-paid and -received measures slipped to 79.8 and 33.3, respectively, from their record highs of 83.5 and 37.1 last month. The composite index dipped for the second month to 17.4 this month, though is not too far from April's 26.3—which was the best pace since October 2017; the reading was at 3.5 at the start of this year. Growth in both new orders (to 16.3 from 28.9) and shipments (14.2 from 29.7) slowed this month after reaching their best rates since March 2006 and August 2007, respectively, in May. The unfilled orders (to 7.9 from 21.4) measure was down from May's pace—which was the second highest reading on record behind September 2001's 36.5. Meanwhile, both the employment (to 12.3 from 13.6) and hours worked (15.1 from 18.7) measures continued to expand at a steady pace this month. The delivery times (to 29.8 from 23.6) gauge hit another record high, pointing to significantly longer delivery times. Looking ahead, the survey showed firms remained very optimistic this month, with the index for future business conditions (to 47.7 from 36.6) jumping 11.1 points, on widespread gains. The prices-paid (to 64.1 from 67.1) gauge eased a bit from May, while the prices-received (45.6 from 43.6) measure continued to accelerate.

**Industrial Production** ([link](#)): Industrial production in May expanded for the 11th month since bottoming last April, climbing 0.9% m/m and 18.7% over the 13-month period to within 1.4% of its pre-pandemic level. Manufacturing output advanced 0.8% and 23.7% over the comparable periods and was only 0.5% short of its pre-Covid reading. Here's a snapshot of May production by market group (and their components) since last April and where they stand relative to their pre-Covid levels: business equipment (43.0% & -0.4%), led by transit equipment (258.3 & -2.9), followed by industrial equipment (26.8 & -1.1) and information processing equipment (10.0 & +3.9). The gain in consumer goods (19.6% & +0.4%) production was led by a surge in consumer durable goods (87.8 & -0.9), while nondurable goods (7.9 & +0.7) output was more subdued.

**Capacity Utilization** ([link](#)): The headline capacity utilization rate continued to rebound from February's weather-related decline. The overall utilization rate climbed to 75.2% in May after falling from 74.9% in January to 72.7% in February. The rate is up 11.8ppts from last April's low and is currently 4.4ppts below its long-run average. Manufacturing's capacity utilization rate advanced for the second time in three months, from 72.8% in February to 75.6% last month—up 14.8ppts since last April; it remains below its long-run average. The operating rate for mining climbed from 74.3% to 75.2% in May, while the utilities rate held at 72.8%, with both remaining below their long-run averages.

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