

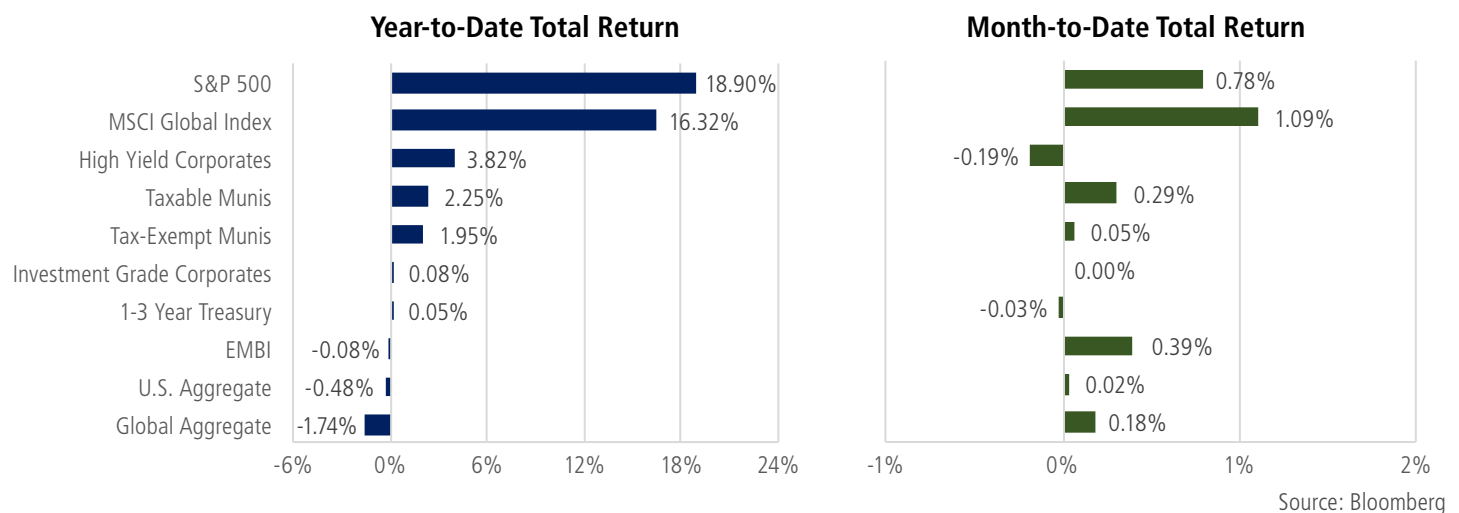
Week Ending: **August 6, 2021**

Delta Delays

Economic Overview:

To taper or not to taper? The question surfaced again this week after several comments by Fed speakers. We're skeptical that an announcement is imminent. First, the Fed is unlikely to announce a taper while the Delta variant remains a threat. Fed Chair Powell commented last week on the potential economic impact of the Delta variant, saying that "with successive waves of Covid over the past year and some months now, there has tended to be less in the way of economic implications from each wave." True. [The New York Fed's Weekly Economic Indicator confirms that the economic consequences of each wave have been more muted than the initial March 2020 lockdown.](#) Still, the Delta variant may be a different story, as many states reinstitute indoor mask mandates and large employers push back return-to-office dates. Second, employment in the U.S. remains roughly 9 million jobs short of the pre-virus trend level. It will take a few robust jobs reports to show "substantial further progress" toward closing the labor market gap. Taper time? Not yet.

Total Returns by Asset Class



Highlights of the Week:

- High Yield:** Despite spread widening in July, high yield bonds still posted a positive return thanks to a healthy stream of coupon income and lower rates driving prices higher.
- Corporates:** It was a great week for investment-grade issuance within the primary markets as \$9.4 billion was priced on Thursday bringing weekly volumes to \$30 billion—the highest weekly figure in two months. In addition, over 80% of new issuance is trading tighter in the secondary market. With the August slowdown looming, expectations are for a front-loaded month. Analysts anticipate there will be \$25-\$40 billion in new issuance next week.
- Securitized Products:** This week the Centers for Disease Control (CDC) extended the eviction moratorium, set to expire July 31st, by 60 days to October 3rd. The moratorium now applies to over 80% of counties in the U.S. facing high levels of community transmission of Covid. Without Congressional approval, however, the current extension is unlikely to survive legal challenges given the previous Supreme Court ruling that required "specific congressional authorization" to extend the deadline.
- Municipals:** Supported by heightened air travel, the airport sector, which was expected to return to pre-pandemic levels by 2023, now projects recovery as early as the second half of 2021. In response to improving passenger volumes, rating agencies like Fitch have recently revised outlooks from negative to stable for 18 larger airports.
- Equities:** The U.S. equity market rallied this week on continued robust second quarter corporate earnings. Thus far, the second quarter is on pace to see the strongest quarterly growth in more than a decade. The financials, utilities, and real estate sectors led markets higher, while the consumer staples, materials, and industrials sectors lagged the broader market.