HilltopSecurities

The Coiled Spring of Pent-Up Demand

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In this morning's economic releases, U.S. personal income for January rose +10%, the highest percentage increase in nine months according data from the Bureau of Economic Analysis (BEA). Government transfer payments were up +52% in January, reflecting receipt of individual benefits afforded by the $908 billion pandemic relief package passed in December. Also this morning, the BEA reported January personal spending rose +2.4%, the sharpest rise in seven months. On a year-over-year (pre-pandemic) basis, personal income was up +13.1%, while spending was down -0.4%. The personal savings rate (savings as a percentage of disposable income) jumped from 13.4% to 20.5%, the highest in eight months. By comparison, the personal saving rate averaged 7.3% in the 10-year period before the pandemic began.

The sharp increase in personal income is expected to reverse itself in February since the latest support package won't pass this month. However, assuming the $1.9 trillion deal on the table is signed and enacted in March, another income jump (likely larger) would be expected. The continued rise in income has already pushed excess savings at U.S. households to an estimated $1.6 trillion. Unfortunately, the top two income quintiles claim all of it, according to research by Oxford Economics. This realization supports the argument that additional pandemic stimulus dollars should be targeted by need.

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The vaccine provider group is likely to add a new participant very soon as the FDA will vote today on whether to approve the Johnson & Johnson covid shot for emergency use. The winter storms slowed down the pace of daily vaccinations from a daily peak of 1.7 million doses, but the introduction of J&J should help exceed this number in the coming weeks. Administration officials reported 70 million vaccine doses have already been administered with roughly 50% of Americans 65 and older having received their first dose. This age group had accounted for approximately 80% of COVID-19 deaths according to CDC records. If the at-risk group is expanded to 50 and older, it accounts for roughly 95% of deaths. So, the fact that the more vulnerable are being protected actually implies faster herd immunity than a straight count of vaccinated Americans.

With so much money rattling around and more to come, the markets continue to fret over the looming inflation spike. Some price pressure is inevitable; it's the magnitude and duration that are being debated. *The economic impact of a broad pandemic retreat and the related return of service jobs, paired with massive spending capacity and what is expected to be an urgency to leave the house and return to leisure-time activity, is likely to be significant.* In my opinion, the economic surge and rise in prices will be limited, but in all fairness, what's transpired over the past year is unprecedented…so no one knows for certain.

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The bond market appears to have regained its footing today after central bank officials around the world added their assurances to Fed Chair Powell's. The NASDAQ also seems to be ending the week on stable ground, willing to accept a bit more risk as bonds settle down, while the DOW is struggling due in part to SalesForce lowering its outlook. The financial week seems to be ending with a sigh of relief, but lingering uncertainly suggests volatility remains fully intact.

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Market Indications as of 1:50 P.M. Central Time

DOW	Down 298 to 31,103 (HIGH: 31,962)
NASDAQ	Up 162 to 13,281 (HIGH: 14,095)
S&P 500	Up 1 to 3,831 (HIGH: 3,934)
1-Yr T-bill	current yield 0.07%; opening yield 0.07%
2-Yr T-note	current yield 0.14%; opening yield 0.17%
5-Yr T-note	current yield 0.76%; opening yield 0.82%
10-Yr T-note	current yield 1.45%; opening yield 1.52%
30-Yr T-bond	current yield 2.20%; opening yield 2.27%