

The Seriousness of the Delta Surge

The spread of the Delta variant, which is now responsible for 90% of new covid cases, has happened so quickly that the magnitude of the problem hasn't fully sunk in for most of us. Last year's precautions were largely abandoned as the summer ushered in a welcomed sense of normality and relief. In retrospect, we may have dropped our guard too soon.

According to CDC data through yesterday, 166.7 million Americans, representing 50.2% of the total U.S. population, are now fully vaccinated. Of the most vulnerable 65-and older group, 80.4% have received both shots. If the significantly more contagious Delta strain hadn't asserted itself, the covid virus would have become less and less of a threat. But, in a very short period of time, the number of new cases has virtually exploded with concentrations in areas of the country where vaccination rates are low. It's also apparent that younger people are more susceptible to the new strain. The American Academy of Pediatrics reported an alarming +86% increase of cases in the under-18 age group during the final week of July. Although the fatality rate has dropped sharply since January as an increasing percentage of senior citizens are vaccinated, covid deaths have more than tripled over just the last month and are likely to follow the case trend higher over the next few weeks. So far, currently available vaccines have proven effective in combating the variant, but nearly half of Americans are either unable or unwilling to get the shot.

The U.S. 7-day average of new cases was under 12,000 six weeks ago, but has since surged more than 800% to over 100,000. This is double the number of cases from a year ago when public schools and universities opted to conduct virtual classes. Kids over 12 years old can be vaccinated before returning to school, but the FDA is not expected to approve a vaccine for children under 12 until mid-winter 2021. It's still rare that younger people die from covid, but we are all (vaccinated or not) capable of transmitting the disease.

Daily Confirmed New Cases (7-Day Moving Average) Outbreak evolution for the current most affected countries



Source: Johns Hopkins University.

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New cases in Texas have surged from a 7-day average of 1,500 at the end of June to 12,600 through August 8th. Florida has fared even worse with average daily cases climbing from 1,600 to 22,500 over just 40 days. There's very little political will for another school shutdown, but at the same time, the mask battle has only intensified with governors of the second and third largest states threatening to withhold funding to school districts that impose mask mandates. Both states are scheduled to begin in-person classes within the next one to three weeks, and it's far from clear that the current virus wave has reached its crest.

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What all this means from an economic standpoint is continued material shortages, a slowdown in growth and even more hiring challenges. Mandated business closures are unlikely, but that doesn't mean Americans won't take it upon themselves to exercise caution. *And caution is sand in the gears of economic growth.* Fed officials are expected to announce a scaling back of QE assets purchases sometime this year, but may be reluctant to tighten policy amid such rising uncertainty. Bond yields are higher today across the board, but this increase has more to do with rising inflation than the prospect of near-term economic weakness.

Long before the Delta wave became a front-page story, employers were already struggling to find workers. This problem doesn't seem to be improving. Yesterday, the Job Openings and Labor Turnover Survey (JOLTS) showed a record 10.1 million job openings in June, a sharp rise from the previous high of 9.5 million from a month earlier. Total hires in June were 6.7 million, leaving an openings/hire gap of 3.4 million, slightly above the historical peak logged in May.

Market Indications as of 3:30 P.M. Central Time

DOW	Up 163 to 35,265 (NEW HIGH)
NASDAQ	Down 72 to 14,788 (HIGH: 14,895)
S&P 500	Up 4 to 4,437 (NEW HIGH)
1-Yr T-bill	current yield 0.07%; opening yield 0.06%
2-Yr T-note	current yield 0.24%; opening yield 0.22%
3-Yr T-note	current yield 0.45%; opening yield 0.42%
5-Yr T-note	current yield 0.83%; opening yield 0.79%
10-Yr T-note	current yield 1.35%; opening yield 1.32%
30-Yr T-bond	current yield 2.00%; opening yield 1.97%

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