

U.S. ECONOMY UPDATE

THE ASTOR ECONOMIC INDEX® (AEI)

Our proprietary Astor Economic Index was up slightly in May and is at a level which typically reflects solid economic growth. The May payroll number (released June 4) was somewhat below expectation but average growth in payrolls remains around 550,000 a month - about twice a typical level but it will take more than a year to make up all the jobs lost at this pace.

FISCAL POLICY

The Biden administration signed an additional \$1.9 trillion stimulus package into law in early March and put forward a \$2 trillion infrastructure proposal a few weeks later. Recent news from Washington suggests that any infrastructure spend will be closer to \$1 trillion rather than \$2 trillion and remember that any headline number will be spread over ten years. The openhanded fiscal stance combined with excess consumer savings could lead to a significant boom in 2021. The Democrats tenuous control of congress, however, this means that we will have to watch carefully to see what additional spending can actually pass.

INTERNATIONAL ENVIRONMENT

While growth is broadly expected to accelerate in 2021 according to the OECD's Economic Outlook Report, **the Eurozone slipped into a double dip recession last quarter.** The U.S. economy is expected to be strongest among rich nations, though all countries are expected to make up substantial ground from the pandemic economic suppression. A recovery everywhere is contingent on reining in the virus and all the wealthy large countries have made significant progress in vaccinations.

FED STANCE

The Fed is giving support through both low rates and a large and growing balance sheet. Chair Powell's August [speech](#) at the Jackson Hole conference stated that the Fed will tolerate a somewhat higher inflation rate for an unspecified time to better probe how low unemployment can go. The first rumblings of regional Fed bank presidents about possible inflation have been heard. In his April [press conference](#) Chair Powell confirmed that the Fed is nowhere near ending the extraordinary accommodation it has been providing during the pandemic but eyes are turning to the forthcoming June 16th press conference for clarification as to how much inflation the Fed will tolerate.

ECONOMIC SUMMARY

The U.S. economy rate of growth looks steady in May but we are eager to see a return to acceleration, especially in the labor market. Getting the virus under control is the key to a full throated economic recovery and the news has been mainly positive recently. Vaccinations are still accelerating and there is a distinct drop in the number of cases which we can hope will be sustained in the face of more transmissible strains. We currently see an economy which is healing and hope it will turn to booming.

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ASTOR STRATEGY UPDATE

At Astor, we believe that typically the stronger the economic environment the better equities will perform. We currently have above average levels of equities, reflecting the strong improvement in the economy over the last few quarters.

ASTOR DYNAMIC ALLOCATION (ADA)

- At the June meeting the Investment Committee (IC) increased equity exposure by cutting long commodity exposure and adding some international, developed market equity.
- In May our commodity positions outperformed the stock market for the second month in a row while our large cap positions performed in line.

ASTOR SECTOR ALLOCATION (ASA)

- At the June meeting the IC cut the financials in favor of industrials
- The financial sector leaves the portfolio on a high note as it outperformed the broad market handily in May. Consumer discretionary, on the other hand, was a drag on the portfolio.

ACTIVE INCOME (AI)

- The IC made no changes to Active Income at the June meeting
- Active Income performed in line with the broad fixed income market in May with our short duration positions underperforming slightly and our credit positions overperforming a bit.

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