

WEEK IN REVIEW

Friday, May 22nd 2020

- **WALMART**, the country's largest retailer, said sales from stores and digital channels rose 10% in the latest quarter. While the pandemic upended consumer buying habits, Walmart was rewarded by being one of few stores positioned for a surge as consumers began stocking up on food and household items. Although its foot traffic fell in the quarter, spending per transaction rose +16.5%. April was met with a boost in sales when shoppers began receiving stimulus money. Digital sales climbed 74% as customers switched to ordering on-line for delivery or curbside pickup. Despite \$900 million in additional costs related to Covid-19, the store reported a higher operating profit for the period.
- **WHILE A PICKUP IN ECONOMIC ACTIVITY** is expected in coming months, the CBO projected that US GDP will likely be lower in the fourth quarter of this year when measured against the same period in the prior year. The outlook suggests a slow recovery with the impact of the pandemic that will likely extend through the end of 2021. This stems from the suddenness of the downturn, in addition to expectations that social-distancing measures will remain in force for another year. For the current quarter, estimated GDP will shrink 11.2%, more than quadruple the next-biggest quarterly decline in records going back to 1947.
- **COMPANIES THAT MADE RENT PAYMENTS** through the past two months of closures have suggested that they will request forbearance going forward. Chipotle and Shake Shack have asked property owners to renegotiate the leases or defer rent payments. Starbucks also made requests to landlords asking for various concessions, including changes to lease terms and base rent for the coming year. Restaurants are reopening in states such as Florida, Texas and South Carolina. Yet, social-distancing guidelines are constraining capacity to as little as one quarter of normal, forcing expense cutting in order to keep doors open.
- **SANTANDER SETTLED CHARGES** of predatory lending by paying a \$550 million fine with nearly three dozen states. The lender has been approving consumers for unaffordable loans where some had larger monthly payments than the borrowers' incomes. The settlement was announced earlier this week and involved states claiming that the bank failed to properly monitor dealers that would falsify applicant information. At times, consumers were applying for loans that were greater than their cars purchase price.
- **DURING MONDAY'S 3.2% MARKET RUN-UP**, the CBOE put-to-call ratio for stocks fell to the lowest level since February 19th, the day the S&P 500 last hit record highs before declining in history's steepest bear market shift. The sentiment was driven by the smallest of investors, where trades occurred for 10 contracts or fewer.
- **MANY INDUSTRIES ARE CONSIDERING NEW TYPES OF ROLES** designed to prevent the spread of COVID-19, with thermal scanners among some of the more common tasks being planned. Amazon is hiring lab workers for its own virus tests. JPMorgan is considering adding elevator attendants, and McDonald's Corp. is considering keeping guides that attend its self-serve drink stations during busy times.

- THE ALGORITHMS THAT TRADERS USED TO HELP IN TRANSACTING BONDS with their customers failed in March, at the height of volatility. In this period the machines couldn't adapt because algorithms are built to rely upon historical data. The forward thinking of human traders was suddenly needed to price bonds, edging out machines that are designed to be efficient while often lacking foresight. Today, 70% of the investment-grade corporate bond market require some form of human interaction, especially when trading larger blocks.
- AIRLINES WERE RECOVERING THIS WEEK, albeit at a very slow pace. Bookings started outpacing cancellations and June reservations are showing improvement according to Southwest. Separately, United Airlines is seeing reduced cancellations and mild strengthening on U.S. and some international routes. Expectations for the percentage of seats filled per plane in May average between 25% and 30%, compared to April's 8%. This forecast remains down as much as 70% from one year ago.

THINKING AHEAD

Current conversation throughout the markets seem to be centered on the apparent disconnect between an economic decline and the movement of markets. While the news from the medical front has been incrementally positive over the past several weeks, there remains little clear indication that research aimed towards either treatment or prevention of the infection demonstrates any near term solution. As much of the workforce and many businesses continue to struggle with closures, the base scenario that many of us can see is a slow return to normalcy that may extend through 2021. Layer on additional concerns of geopolitical uncertainty, permanent shifts in consumer behavior of unknown magnitude, and borrowing from the future to stabilize current risks, we see little probability that the world returns fully to the norms of two months ago.

Yet, an examination of current investor behavior offers us some contra-indicators that may start pulling us away from the negative extremes. A broad survey from economists and strategists reflects elevated levels of cash allocation and a bias towards the bleak. While we're not quite there at the moment, maximal bearishness is a strong indicator that recovery and uptick will be seen on the horizon. Additional signs that may precede a market recovery include a decade-long flow-bias towards bonds that will likely reverse due to current interest rates. Combine these factors with prospects of re-shoring and re-deployment of labor skills, and we begin to see how we can adapt economically to a different world.

We will continue to provide weekly market updates. In the meantime, you can access our thought leadership pieces on our [Insights](#) page and by following us on [LinkedIn](#).

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