PALLAS CAPITAL ADVISORS

Week in Review

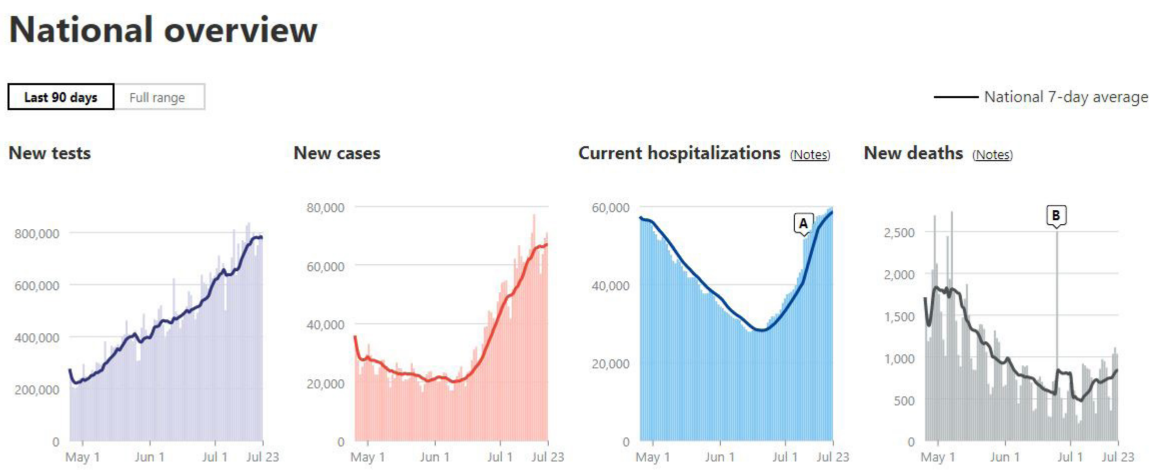
Friday, July 24th 2020

- INVESTORS SAW BETTER THAN EXPECTED EARLY RESULTS from earnings season. According to FactSet, over 20% of the S&P 500 have reported earnings, and more than 76% have exceeded consensus earnings expectations, better than the 72% five-year average. In aggregate, companies are reporting earnings 11%+ above expectations, well ahead of the five-year average positive surprise rate of 4.7%. Industries with strong results include home improvement, appliances, software, and consumer staples. Areas of weakness include commercial banks and credit card companies. Looking forward, many companies have refused to provide forward guidance given the uncertain trajectory of the economy.

- WEEKLY INITIAL JOBLESS CLAIMS rose for the first time since April. Claims this week rose to 1.4 million from 1.3 million in the prior week. The largest employment losses took place in the Sunbelt states as they re-imposed economic restrictions due to the surge in coronavirus cases. Continuing claims did come in lower at 16 million, but this is still a staggering amount of people claiming unemployment. Job growth will be key to continued consumer spending as fiscal stimulus fades.

Source: fred.stlouisfed.org

- CORONAVIRUS HOSPITALIZATIONS AND DEATHS have started to pick up following the spike in active cases. While the impact on the healthcare system may be better than previously feared, many Sunbelt states are beginning to have strains on the system. Recent restrictions on activity should help slow the spread. On the positive side, progress continues to be made in the medical community on vaccines and treatments.



Source: www.covidtracking.com

- DETAILS ON A NEW FEDERAL STIMULUS BILL will be key to near term spending power in the economy. Additional stimulus is needed as the economy is yet to fully open. The level of stimulus will be critical. Republicans are pointing to cutting the $600 additional unemployment due to the perception that the high level of support is a disincentive to go back to work. Additionally, the federal deficit is ballooning, and Congress may seek to incrementally lower the total spending in the package. Less spending could slow near-term recovery.

- THE US DOLLAR HAS BEEN WEAKENING. According to Reuters, the dollar index is down around 8% from its highs of the year and near the lowest level since 2018. The US dollar has served as an area of safety during the initial stages of the crisis. However, the US is now lagging Europe and Asia in terms of getting the coronavirus under control. Additionally, Europe put together a significant stimulus bill this week. As part of the package, Europe took the unprecedented step of issuing a Eurobond – backed by all the nations of the block. Historically, Europe kept fiscal funding at the country level.

Thinking Ahead

Early earnings results have been positive compared to previous expectations, but forward guidance is lacking. As economies close again following the spike in coronavirus cases in the Sunbelt states, economic activity is beginning to slow as evidenced by the rise of initial unemployment claims. The impact from the spike in coronavirus cases is beginning to be felt in hospital utilization rising. The next fiscal package will be key to track as government support has been instrumental in near term consumer spending. Given the rise in markets, reversal in trend on the economy opening, and uncertainty around the next government stimulus package, Pallas Capital continues to advocate for a conservative asset allocation.

We will continue to provide weekly updates. In the meantime, you can access our thought leadership pieces on our Insights page and by following us on LinkedIn. You can access a recording of all prior weekly webinars here.