

WEEK IN REVIEW

FRIDAY, AUGUST 21ST 2020

- US RETAIL SALES in July were up 1.2% from June to \$529 billion. This brings overall sales back to pre-pandemic levels where February 2020 was \$527 billion.

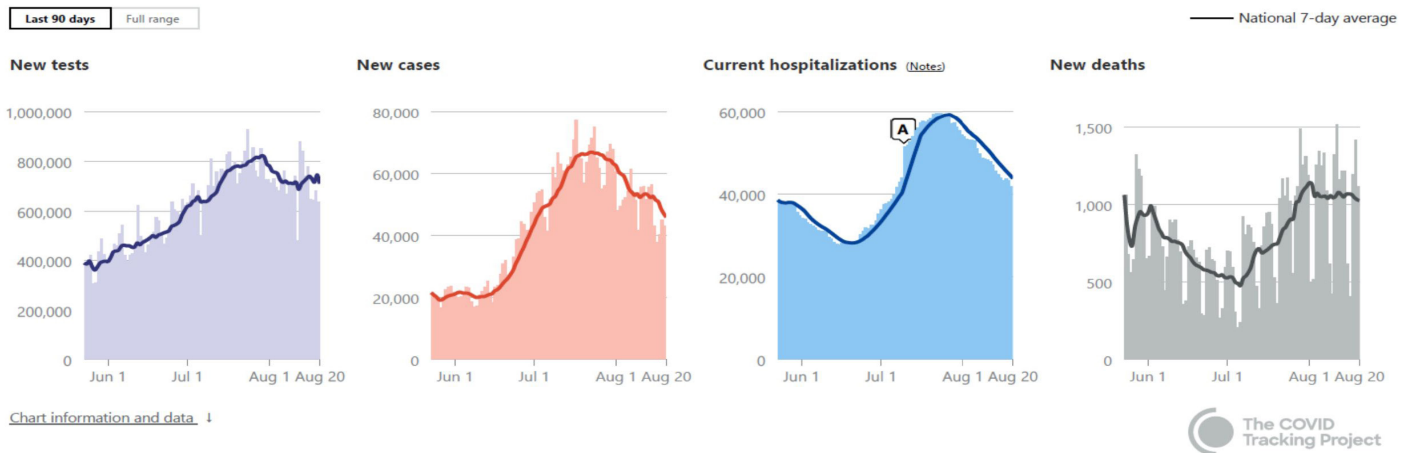


Source: fred.stlouisfed.org

- CONSUMER SPENDING PATTERNS have shifted towards online spending, non-discretionary goods, and home improvement. Large US Retailers reported earnings this week with companies such as Target, Walmart, Home Depot and Lowe's all reporting better than expected strong earnings. Weak areas continue to be restaurants, travel, and leisure. This shift in spending has been disruptive for companies and consumers creating near term winners and losers. The Federal stimulus programs have certainly aided spending over the last few months. Monitoring spending as the stimulus fades will be a key indicator for the direction of the economy.
- THE DEMOCRATIC NATIONAL CONVENTION was held this week formally putting Joe Biden and Kamala Harris at the top of the ticket. Government spending has ballooned during the pandemic. Tax increases are likely at the Federal and State level regardless of the parties that win the election. The Biden tax plan would raise taxes across the board including at the corporate income level, personal income and capital gains, Social Security, and estate and gift taxes. The timing of any increase is also uncertain as the economy is still struggling with pandemic effects. Increasing taxes in the short run would likely slow the recovery.

- WEEKLY INITIAL JOBLESS CLAIMS actually increased to 1.1 million this week from 963,000 last week. While initial claims increased, continuing claims fell to 14.8 million from 15.5 million. Employment and consumer spending will be key to watch as the Federal government has not extended unemployment benefits in a new stimulus package. Perhaps the decline in continuing claims demonstrates people getting back to work.
- PFIZER AND BIONTECH say regulatory review for a COVID-19 vaccine could be as early as October. The companies released additional data that shows safety and efficacy is still on track for their drug under trial. Johnson and Johnson also announced a 60,000 subject trial that would double the number of subjects in other trials. As vaccine development progresses, overall pandemic numbers continue to ease from the second surge, and hospitalizations are also dropping. However, until the medical situation is fully under control, the drag on economic activity will continue.

National overview



THINKING AHEAD

US retail sales have demonstrated a V-shaped recovery, supporting the V-shaped recovery in the stock market. However, questions remain as to how much of the spending can be attributed to stimulus programs. With unemployment still high and the economy restricted due to the pandemic, the spending may fade as stimulus programs wind down. The Democratic National Convention brings the November Presidential election into the spotlight. Taxes are likely to increase in the next term to help pay for all of the pandemic expenses. While multiple risks are evident for markets, retail sales have fully recovered albeit with a much different mix than pre-pandemic. Discerning between relative winners and losers from this economic shift continues to be paramount for investment allocations. Pallas Capital Advisors maintains a balanced and conservative approach to asset allocation.

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