

## WEEK IN REVIEW

FRIDAY, AUGUST 28TH 2020

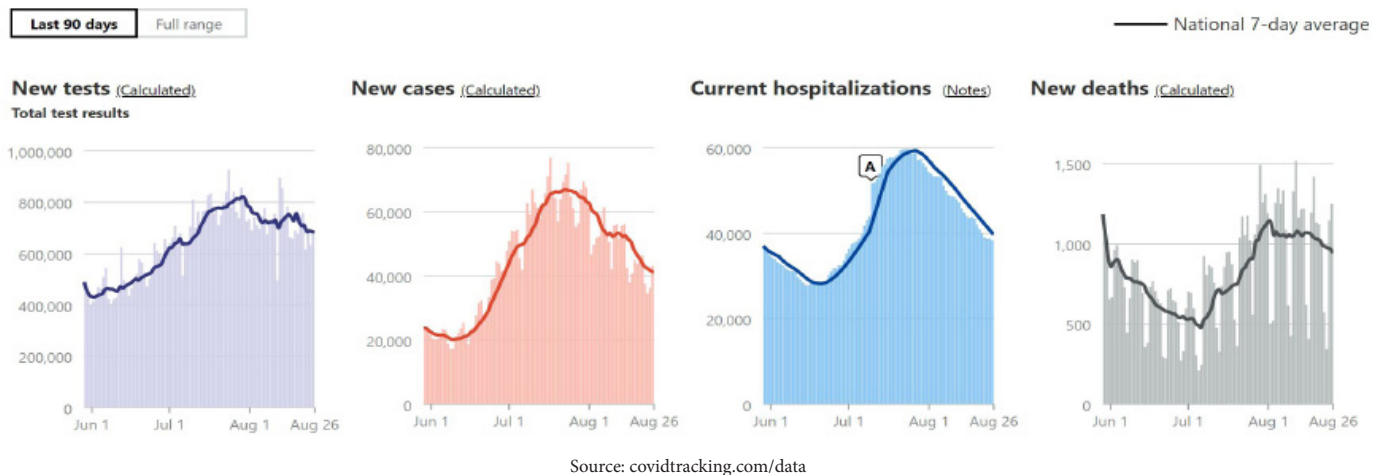
- THE FEDERAL RESERVE unanimously approved a new target inflation strategy. Chairman Jerome Powell noted the Fed will seek to achieve average inflation of 2% over time and aim for above 2% if inflation is persistently below target. This change reflects the Fed's view that a robust job market will not necessarily lead to unacceptable levels of inflation. The most significant likely outcome of this change to inflation targeting is that interest rates will remain low for an extended period of time. The risk seems to be that inflation may run higher in the intermediate term. However, the Fed has the tools to fight inflation (raising rates), whereas the Fed is much more limited in tools to fight deflation.
- WEEKLY INITIAL JOBLESS CLAIMS were essentially flat at 1 million this week. Continuing claims fell to 14.5 million from 14.8 million as the scale of pandemic unemployment slowly improves. Durable goods orders rose 11.2% in July, making it the third straight month of improvement. While durable goods are not back to pre-pandemic levels, the rebound has happened faster than compared to the last two recessions.



Source: fred.stlouisfed.org

- CONSUMER MACROECONOMIC DATA WAS MIXED. The index of consumer confidence fell to 84.8, as measured by the Conference Board, driven by lowered expectations for jobs. On the positive side, July new home sales came in at a 901,000 SAAR, exceeding the consensus of 782,000.
- THE S&P DOW JONES INDICES announced a material change to the 30 company Dow Jones Industrial Average. Salesforce.com, Amgen, and Honeywell were added, while Exxon, Pfizer, and Raytheon were removed. The change was triggered by Apple's stock split, which had the effect of lowering the overall technology weight in the index. The removal of energy producer Exxon, combined with the addition of software producer Salesforce.com, was done to reflect the leading role of technology in today's economy.

- **TOP US AND CHINESE TRADE OFFICIALS** reaffirmed their commitment to the phase one trade deal. Both sides committed to making progress on intellectual property rights and Chinese purchases of US goods. Trade tensions have generally taken a back seat to pandemic concerns and the US election. However, trade issues could disrupt any nascent recovery if they were to escalate further.
- **THE FDA GRANTED EMERGENCY USE AUTHORIZATION** to Abbott Labs for the development of a rapid COVID test. The test can be run without lab equipment and be produced in 15 minutes. 50 million tests are expected to be produced each month beginning in October. While treatment and testing developments progress, current daily active cases and hospitalizations continue to fall on a national level. As schools re-open, the daily active cases will be an indicator as to how quickly the economy will recover.



## THINKING AHEAD

The Federal Reserve's change in inflation targeting policy will likely keep interest rates lower for longer. Implications across asset classes would include lower for longer yields on money market funds and cheaper financing for borrowers. Economic data continues to have more positive data points than negative as the economy digs out of the hole the pandemic has caused. Technology drives the current economic environment as evidenced by the change in constituents in the Dow Jones Industrial Average. COVID-19 data points continue to improve while the country awaits school re-openings. 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.

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 webinars [here](#).

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