PALLAS
CAPITAL ADVISORS

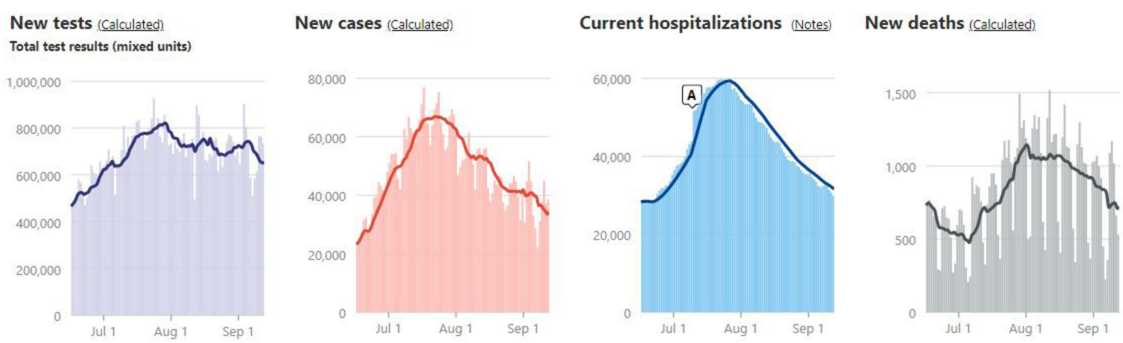
Week in Review

Friday, September 11th 2020

- SIX OF THE BIGGEST TECHNOLOGY STOCKS lost more than $1 trillion in a three-day selloff. Apple, Microsoft, Amazon, Alphabet, Facebook, and Tesla lost more than $1 trillion from their peaks this week. NASDAQ dropped 10% in three days for the fastest correction in history. While the pullback was swift, the S&P 500 and NASDAQ are just back to levels from early to mid-August. Those six technology companies were worth ~$5 trillion at the beginning of the year, peaking last Wednesday with a value of $8.2 trillion. After Tuesday's selloff, they still had a combined market value of $7.1 trillion. Technology continues to be the driver of the broader market rally due to the digital transformation of the economy from the pandemic.

- THE ASTRAZENECA/OXFORD CORONAVIRUS VACCINE trial was put on hold due to adverse reactions in participants. While news regarding treatments and vaccines have generally trended positively over the last few months, the halting of the AstraZeneca trial reminds investors that the path to a vaccine may not be smooth. The global health community is attempting to develop a vaccine years faster than any other vaccine in history, which is not without risk. The New York Times reported that a volunteer in the UK trial was diagnosed with transverse myelitis (TM), which is an inflammation of the spinal cord often triggered by viral infections. AstraZeneca described the pause as a "routine action".

- DESPITE SCHOOLS BEGINNING TO OPEN AROUND THE COUNTRY, new cases, hospitalizations and deaths continue to fall.



Source: covidtracking.com/data

- HOPE SEEMS TO BE WANING FOR THE POSSIBILITY OF ANY CORONAVIRUS STIMULUS BEFORE THE ELECTION. Republicans attempted to pass a "skinny" stimulus bill this week. The $500 billion bill would have extended the Payroll Protection Program, enhanced unemployment benefits, and provided more funding for schools and childcare programs. However, given the narrow scope of the relief, Democrats were not in favor which prevented the bill from even passing the Senate. Increasing pessimism exists that Democrats and Republicans can find compromise for a fifth round of coronavirus stimulus before the November election. Both sides seem very apart on relief programs, while neither party appears to want to hand the other a legislative victory ahead of the election.

- HOUSEHOLD DEBT has remained generally steady from the beginning of the crisis. The US consumer entered the pandemic in a much more responsible debt position than during the global financial crisis. Entering the 2007-2009 financial crisis, household debt to GDP was around 100%. Consumers have spent the last decade deleveraging down to 76% of GDP. As such, the US consumer has available debt capacity if this crisis were to extend further before getting back to normal. On the unemployment front, weekly initial claims came in at 884,000, essentially flat with the prior week. Unemployment remains stubbornly high with people continuing to work from home and certain industries still restricted from activity.

Source: fred.stlouisfed.org

Thinking Ahead

With second quarter earnings season coming to a close, market attention will focus on the pandemic impact to the economy as well as the coming election. With no new rounds of fiscal stimulus in sight, consumer spending will be watched carefully for any drop off as government transfer payments fade. Households are less indebted than during the financial crisis which can provide some cushion to spending. COVID-19 vaccine hopes had a pause this week due to news from AstraZeneca. However, overall data points continue to improve while school openings begin. The overall market pulled back this week to levels last seen in early August. 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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