

PCA Monthly Commentary

December 2020

A November to Remember

Global markets rebounded strongly in November 2020, following the results of the U.S. election and positive vaccine efficacy announcements. Global equity markets rallied with the S&P 500 +10.9%, NASDAQ +11.9%, EAFE +15.5%, and Emerging Markets +9.2%. Fixed income performance was also positive with the Bloomberg Barclays US Aggregate +1.0% and US high yield +4.0%. Cyclical commodities such as oil boomed +26.8%, while gold fell -5.4%.

2020 ELECTION RESULTS

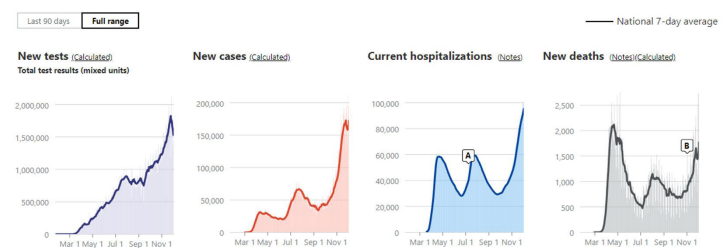
The 2020 election results were finalized over the course of the month, except for the Georgia Senate run-off race to be conducted on January 5th, 2021. President-elect Joe Biden won the race with 306 electoral votes and over 81 million popular votes. Market expectations heading into the election were for a Blue Wave of Democratic victories capturing the Presidency, the Senate, and the House. The wave could have emboldened the Democrats to implement a plan of higher taxes, additional coronavirus relief, more technology regulation, and infrastructure spending. Funding this agenda would most likely lead to higher deficits and potentially higher interest rates in the future. However, with the unexpected strength of Republicans across the board, the Blue Wave agenda will have difficulty being implemented especially if the Republicans ultimately keep control of the Senate.

The Joe Biden era has begun with the hope of a bipartisan approach to governing over the coming term. Biden's Cabinet picks by and large have been relatively centrist. Janet Yellen's nomination for Treasury Secretary exemplifies this approach. Her experience as chairwoman of the Federal Reserve from 2014-2018 should lead to a steady hand in guiding the Treasury Department. Another hope for a bipartisan approach is coming from Congress. Senate Majority leader, Mitch McConnell, and Speaker of the House, Nancy Pelosi, have been in renewed discussion around a \$900 billion

coronavirus relief package. Many details still need to be worked out in a potential deal, but the discussion is encouraging relative to the rancor on display pre-election.

SURGING CORONAVIRUS

Coronavirus has accelerated throughout the country and the world in November. New cases in the US have exceed 200,000 a day while hospitalizations have hit 100,000 and deaths are increasing.



Source: covidtracking.com/data

With the surge in cases, states have implemented new restrictions to attempt to limit the spread of the disease. California may implement a 21-day restriction on community outings, travel, and in-person shopping as ICU capacity is beginning to run low in some areas.



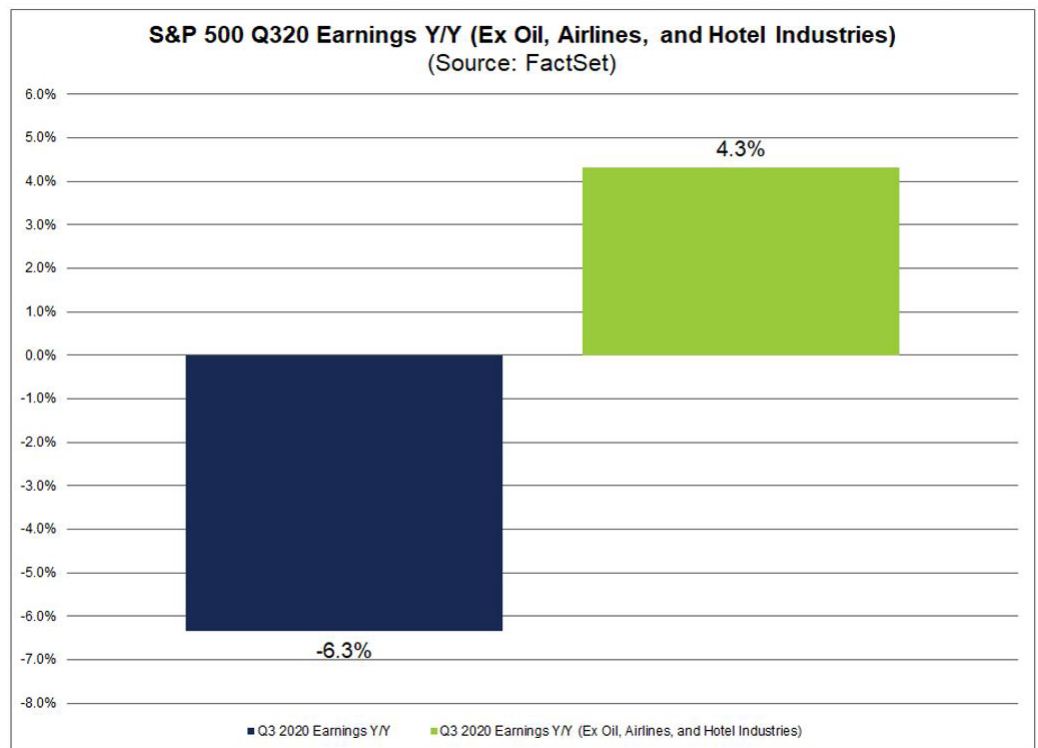
While near term infection trends are alarming, the vaccine news in the month was very positive. Pfizer, Moderna, and AstraZeneca all released data during the month demonstrating effective vaccines to fight the disease. The UK approved the Pfizer vaccine for distribution during the first week of December. The U.S. FDA will most likely rule on the approval of the Pfizer vaccine in the second week of December and Moderna in the third week. Operation Warp Speed in the U.S. has funded logistics and manufacturing of these

vaccines ahead of FDA approval. If the approval comes, the distribution of the vaccines can begin immediately. The CDC and governmental agencies will develop the protocols for distributing the vaccine amongst the population. Most likely, health care workers and high-risk individuals will be the first to receive the doses. Financial markets will balance the near-term negative trends of the active cases with the longer-run positive implication of a vaccinated population with the hope that this will enable a recovery to normal economic activity.

INCREMENTAL IMPROVEMENT IN Q3 EARNINGS

Q3 earnings season came in better than expected. According to Factset, earnings would be growing by 4% year over year for Q3, excluding just three industries. The industries reporting the largest increases include interactive media and services, software, and automobiles. The three industries negatively impacting earnings are oil and gas, airlines, and hotels, restaurant, and leisure.

With 95% of the companies in the S&P 500 having reported results for Q3 2020, 84% have reported actual earnings above estimates. If 84% is the final percentage for the quarter, it will tie the mark with Q2 2020 for the highest percentage of S&P companies reporting a positive earnings surprise since Factset began tracking this metric in 2008.



Source: Pallas Capital Advisors, Factset

While earnings have surprised positively, the unemployment rate dropped again to 6.7% from 6.9%. Continuing claims dropped to 5.5 million from 6.8 million in the prior month. That 5.5 million number is still representative of recession levels, but the trend is positive.



Source:fred.stlouisfed.org

CONCLUSION

November 2020 was certainly a month to remember. Stock markets rallied strongly after U.S. election results and positive vaccine efficacy news. The coronavirus continues to surge around the country, but the U.S. is expected to approve vaccines in December. Distribution will follow almost immediately due to operation Warp Speed. The economic bifurcation continues where technology-driven businesses are thriving while service-oriented businesses are struggling.

A bipartisan effort in Washington will be needed to push through another coronavirus relief bill to aid these struggling industries. Pallas Capital will monitor macroeconomic, political, and company news for impacts on markets.

Sincerely,



Mark A. Bogar, CFA[®]
Chief Investment Officer
Pallas Capital Advisors

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