

WEEK IN REVIEW

FRIDAY, FEBRUARY 26TH 2021

1. TREASURY YIELDS ADVANCING

The long-term Treasury yield moved higher this week as the prospects improved for an economic recovery and another fiscal stimulus package. The 10-year Treasury yield has moved to 1.50% from 1.07% since the beginning of February.

Prospects for inflation may be picking up but actual inflation is still below the Federal Reserve targets. Real yields may also start to rise as economic activity improves. To put the move in context, 10-year Treasury rates were at 2.0% pre-pandemic and peaked over 15.5% in 1980.



Source: <https://www.macrotrends.net/2016/10-year-treasury-bond-rate-yield-chart> - 54 year chart 10 year UST

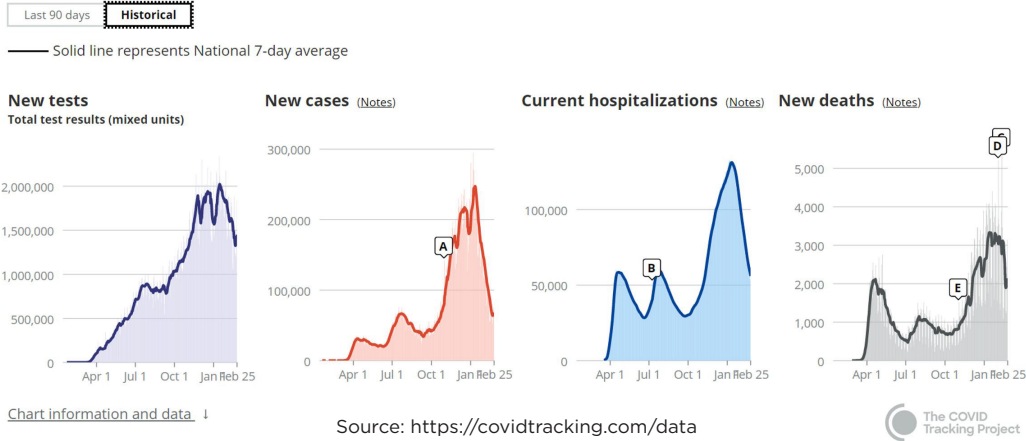
2. IMPLICATIONS OF RATES RISING

Interest rates rising may impact many asset classes. For bonds with all other variables held constant, rates rising will cause the current value of the bonds to fall. Impact on equities can vary by sector. From a discounted cash flow perspective, higher rates make the value of future cash flows lower. As such, companies where the skew of earnings is far into the future will be impacted more negatively, all else equal. Other sectors can benefit from inflation and rates rising such as financials and materials firms.

3. COVID CASES LEVELING OFF

Daily new coronavirus cases in the US have been declining since early January and are now averaging around 70,000 per day, the lowest since October 2020. Current hospitalizations have followed by also declining to around 52,700 as of 2/25/2021. Since vaccination efforts began in the US on December 14th, more than 68.3 million doses have been administered and more than 21.5 million people were fully vaccinated per the CDC. The US is currently administering around 1.7 million shots a day, up from 1 million at the beginning of January.

Overview of National COVID-19 Data



In additional positive vaccine news, CNN reported that the US Food and Drug Administration said the Johnson & Johnson Covid-19 vaccine has met the requirements for emergency use authorization - another positive step towards the authorization of a third shot for the United States. The efficacy of the Johnson & Johnson vaccine against moderate to severe COVID-19 across all geographic areas was 66.9% at least 14 days after the single-dose vaccination and 66.1% at least 28 days after vaccination, according to the analysis, which is meant to brief the FDA’s Vaccines and Related Biological Products Advisory Committee. Full approval of the Johnson & Johnson vaccine may come next week.

4. FEDERAL RESERVE POLICY AND STIMULUS

Per Factset, St. Louis Fed President Bullard said this week that the rising probability of the end of the health crisis has strengthened the US real GDP growth outlook. He also said the rise in the 10-year yield is appropriate given improving growth prospects and inflation expectations rising, but still said the rosy outlook is no reason for the bank to begin the conversation about pulling back support ([Reuters](#)).

On the stimulus front, Senate parliamentarian told Democrats that increasing the minimum wage to \$15 cannot be included in President Biden’s \$1.9T stimulus package, as it would violate budget rules that limit what can be included in the package if passed by reconciliation ([NY Times](#), [WSJ](#)). House Democrats are expected to vote on the package as early as Friday but the ruling means they will likely have to strip out the language from the bill beforehand.

THINKING AHEAD

Interest rates are advancing in the US as recovery and stimulus prospects improve impacting financial markets. Coronavirus cases have dramatically improved since the beginning of the year, while the vaccine rolls on. Federal Reserve policy remains consistent as short-term rates are poised to stay low until unemployment drops and inflation is sustained. Pallas Capital Advisors will continue to monitor economic, political, and corporate data for implications to markets.

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