

WEEK IN REVIEW

FRIDAY, MAY 21ST 2021

1. INFLATION WORRIES PERSIST

In April, consumer prices rose at the fastest pace in a decade and continuing the recent trend. The rise is being fueled by prices in many areas such as housing and automobiles as well as supply chain shortages in areas such as semiconductors. Growth in consumer prices clearly reflects the recovery from the pandemic and is overall a positive indicator for the rebound in the economy.



Source: <https://fred.stlouisfed.org>

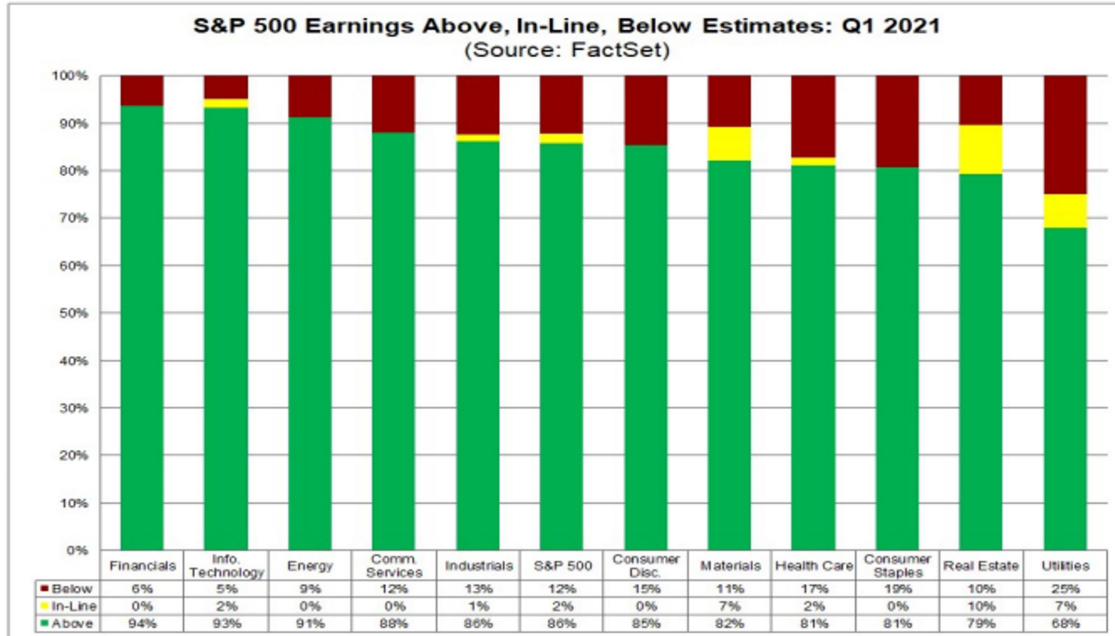
The rise in inflation is having reverberations as investors view that the U.S. Federal Reserve may adjust the schedule for paring back current accommodative policy. The minutes that were released from the April policy meeting this week reveal a continued position of patience, but also an acknowledgment that the improving data might make it appropriate to begin discussing a plan for adjustment to accommodative policy. Fed officials are doing their best to find the balance between getting the market ready for the eventual tightening of monetary policy and investor concerns of the implications of higher interest rates for company fundamentals and valuation.

While inflation is having a dampening impact on the bullishness of investors according to recent polls, the strength of the economic recovery and upward trajectory of forward earnings is helping to offset bearishness.

2. EARNINGS CONTINUE TO LARGELY BEAT EXPECTATIONS

Corporate earnings continue to show the underlying strength of the economic recovery. This week was busy for retail companies, in particular, as many report operations based on results through the end of April, placing them latter in the first-quarter reporting season than the majority of companies that report based on operations

through the end of March. Retailers like Walmart, Target, Home Depot, and Macy's all released results that came in very strong and above expectations.



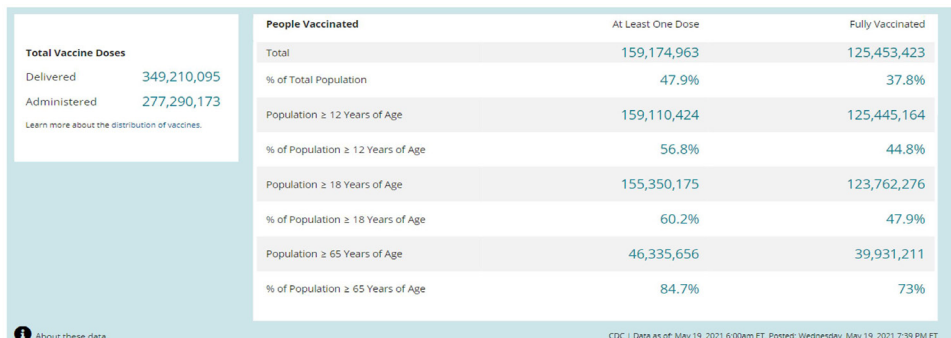
Source: FactSet

Strong earnings reports have been the trend this season with companies in the S&P500 exceeding estimates at a rate of 86%, which is well in excess of the 5-year historical rate of 74%. This rate represents a new record and is flowing through to higher estimates for the S&P for the rest of the year.

3. ACCELERATION OF REMOVAL OF PANDEMIC RESTRICTIONS

Rising vaccination rates and lower active cases are leading to an acceleration in the relaxation and removal of COVID-19 restrictions. Leading the changes in pandemic protocol, the Centers for Disease Control and Prevention issued new guidelines which removed most of the restrictions for individuals that have received their vaccinations. This has paved the way for a path to pre-COVID normalcy.

Several states subsequently have announced broad re-openings of many of the activities that had been closed or restricted. It is expected that this will have a material impact on continuing and broadening the economic recovery in the U.S.



Source: <https://covid.cdc.gov/covid-data-tracker/#vaccinations>

Tempering the significant progress made in the U.S., new COVID strains and lower vaccination penetration rates remain hurdles to overcome.

THINKING AHEAD

Company earnings continue to show strength as the U.S. economy realizes a strong economic recovery. The recovery is also driving higher inflation, at least in the near term, which has the potential to influence a change in monetary policy. Higher vaccination penetration and lower domestic COVID cases are leading to the suspension of pandemic restrictions that should reinforce and broaden the economic recovery. Pallas Capital Advisors will continue to monitor economic, political, and corporate data for implications to markets.

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