

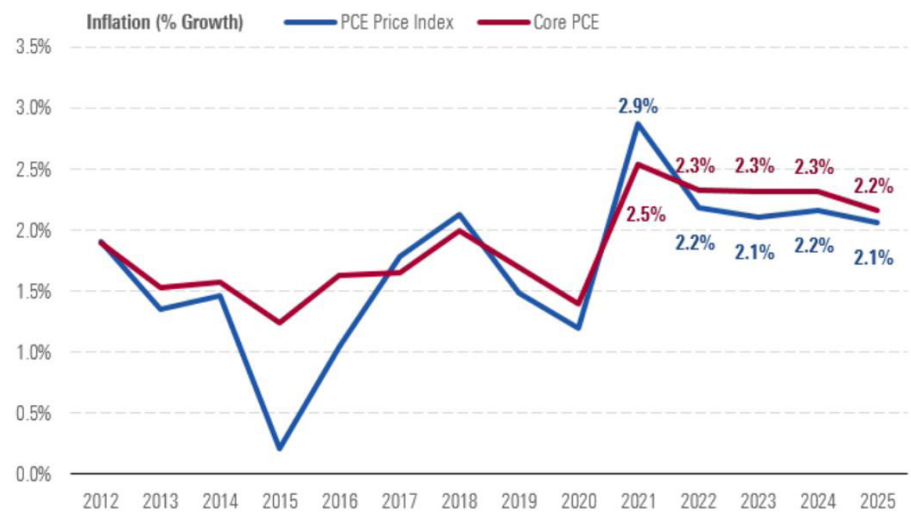
# WEEK IN REVIEW

FRIDAY, MAY 28TH 2021

## 1. SIGNS OF INFLATION REBOUND PLATEAUIING

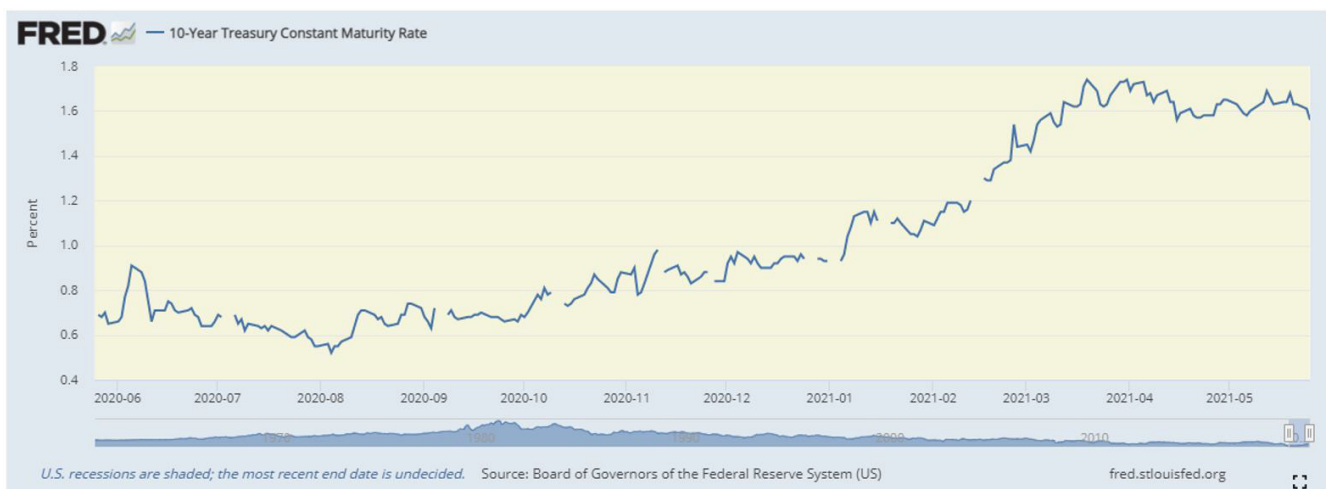
Following the rapid rise in commodity prices, auto sales, home prices, and other economic indicators, data and sentiment this week suggest that perhaps the highest levels of inflationary pressure are behind us or at least slowing. Supply chain constraints will be worked through overtime, and commodity prices such as oil and copper appear to have peaked. This suggests inflationary pressures should slow from the recent high pace but issues such as labor constraints and higher wages could result in a structural higher level of inflation than has been experienced over the past decade.

Historical and Projected Inflation Growth



Source: U.S. Bureau of Economic Analysis, Morningstar

The moderating inflation expectations appear to have halted the growth of the 10 year US Treasury yield. At least in the short term, the market is expressing confidence in the ability of the Federal Reserve to control the rise in long terms rates leading to stability which is providing a source of confidence for the stock market.



U.S. recessions are shaded; the most recent end date is undecided. Source: Board of Governors of the Federal Reserve System (US)

fred.stlouisfed.org

Source: fred.stlouisfed.org

## 2. INFRASTRUCTURE SPEND, TAXES, AND BUDGET

Government policy remains in flux. This week some progress was made in getting to a bipartisan compromise for a nearly \$1 trillion infrastructure plan. The current plan put forward is heavily geared to surface transportation with the majority of funds targeted at roads, bridges, public transit, rails, and ports. Sticking points remain in terms of paying for the plan, with the proposal to raise corporate taxes being said to be off the table.

Further government spending proposals were put forward this week with the release of the proposed fiscal year 2022 budget. At \$6 trillion and 25% above the current fiscal year budget, the aspirational proposal is unlikely to remain intact. However, the proposed budget does show the continued course for the nation to spend at the highest sustained level since World War II.

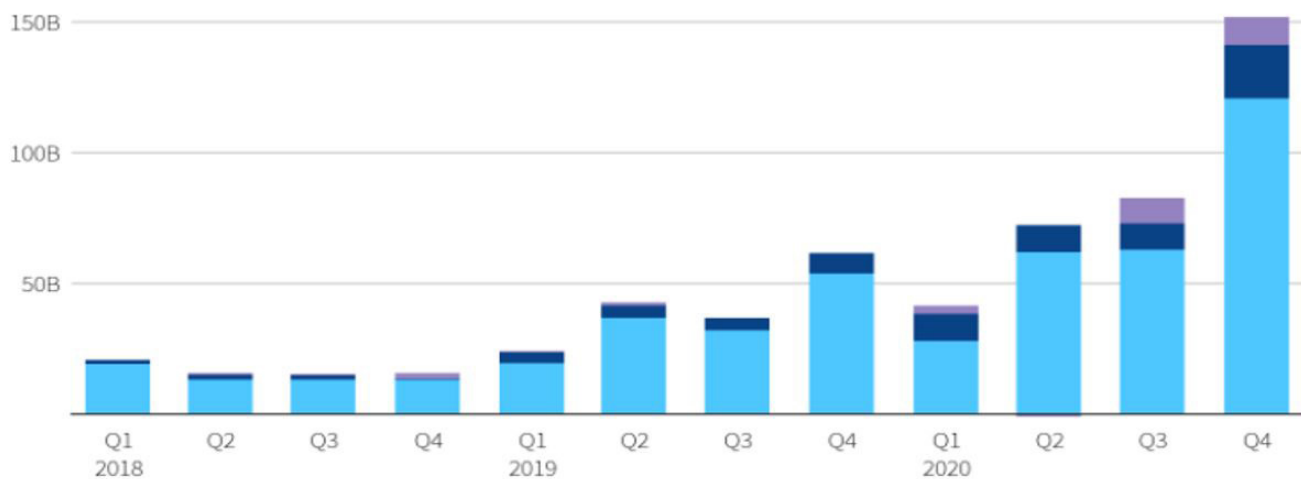
## 3. COMPANIES FACING INCREASING PRESSURE TO MEET ENVIRONMENTAL, SOCIAL, AND GOVERNANCE (ESG) GOALS

The influence of ESG investing on corporations was witnessed this week as two nominees for Exxon's board of directors put forward by an activist ESG fund were voted in despite Exxon's campaign against them. In another development, a Dutch court ordered Royal Dutch Shell to significantly deepen pledged cuts to greenhouse gas emissions. As the size of ESG funds grow, companies will be under increased pressure to meet the investor and societal pressures of this major trend.

### Sustainable fund flows surge past \$150 billion

Flows into sustainable fund flows over time, in billions of U.S. dollars

● Europe ● U.S. ● Rest of World



Source: Morningstar

## THINKING AHEAD

Inflation, in particular gauging the rate of change looking forward and the Federal Reserve's response, remains at the forefront of investor thinking but at a more subdued level of concern. Company earnings have slowed down this week and attention has turned towards other news such as the infrastructure plan, the fiscal 2022 Federal budget, taxes, and ESG. Pallas Capital Advisors will continue to monitor economic, political, and corporate data for implications to markets.

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