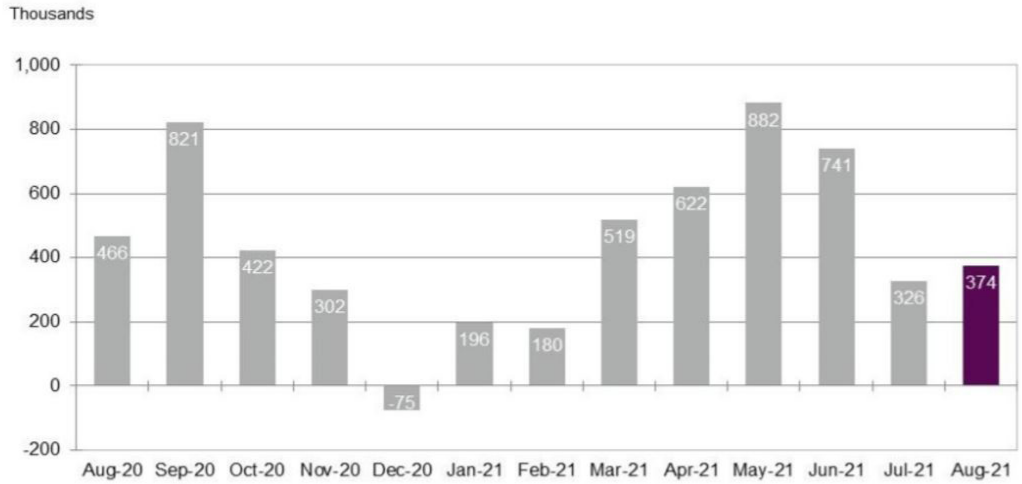
Week in Review

Friday, September 3rd, 2021

1. Employment Data, While Positive, Has Slowed

Recent employment data remains positive, but still below forecasts, and suggests the pace of the recovery has slowed since earlier in the year. The ADP National Employment Report was released on Wednesday, and it showed private sector employment increased by 374,000 jobs from July to August. This fell far short of the 600,000 jobs that were expected by economists. It is also the second month in a row that fell below the March to June pace, which averaged 691,000 jobs added per month.



Source: ADP Research Institute®

While jobs added have slowed, initial claims for unemployment have also slowed with the latest figure of 340,000 being the lowest level for initial claims since the start of the pandemic in March 2020.

Source: US Department of Labor

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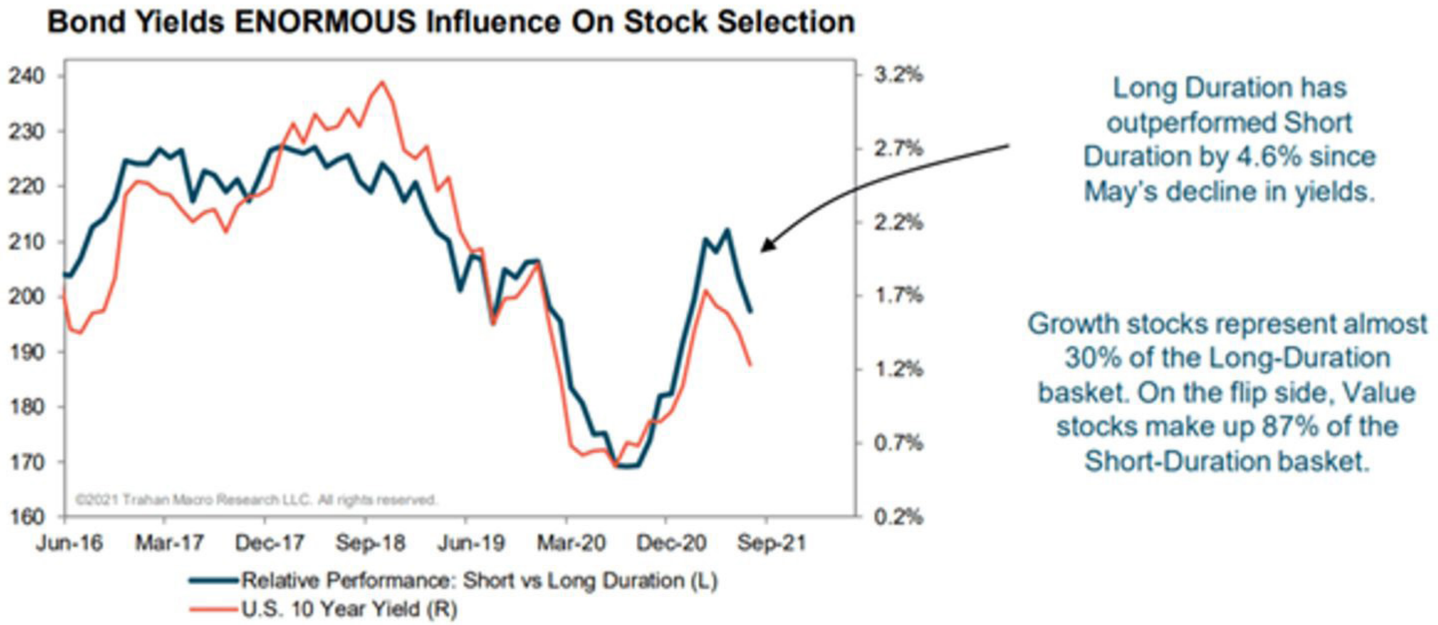
As reiterated by Federal Reserve Chairman Powell last week, employment trends remain at the forefront in terms of monetary policy. This week's data provides incremental support for the Fed's patience in moving forward with tapering.

2. Low Bond Yield Likely Supportive of Growth Stocks

Slowing recovery data and the Fed's caution on embarking on a change in moentary stimulus has likely put downward pressure on long-term treasury yields, with the yield on the 10-year treasury falling from a high of 1.7% in March to the current level of approximately 1.3%.

An important relationship exists between long duration (higher multiple growth stocks) and short duration (lower multiple value stocks) within equity markets. An explanation for the relationship is that as treasury yields rise, the future earnings power of growth companies discount at an increased rate resulting in multiples on current earnings contracting. Conversely, value stocks where more of the current valuation is based on near-term earnings see less of a multiple contraction and potentially benefit from better near-term economic conditions associated with the higher interest rate environment.

This relationship helps to explain the strong relative performance of value stocks in early 2021 and their subsequent relative underperformance versus growth stocks since May's decline in yields.



Source: Trahan Macro Research

While the direction of yield is proving hard to predict this year as it has historically, the importance of portfolio diversification and exposures is an important takeaway for consistent long-term performance.

3. August Concludes with Another Positive Month for Investments

August saw a continuation of strength in the broad investment markets with equities higher (Dow +1.2%, S&P +2.9%, NASDAQ +4.0%, Russell 2000 +2.1%), driven in a large part by the performance in the growth-oriented mega caps. The strong performance was realized in an environment in which treasuries moved slightly upward, COVID-19 cases saw an increase across the US, and economic data moderated from the high pace set earlier in the year. The month also saw the closeout of the second-quarter reporting season with the year-over-year earnings growth rate topping 90% and overall expectations for earnings trending upward for the balance of the year.

While concerns exist as the markets enter a historically volatile period, the Fed's continued monetary stimulus program, low interest rates, and outlook for moderation of supply chain and input prices continue to be supportive of equity markets.

Thinking Ahead

This week saw the end to another strong month for the equity markets. The low interest rate environment has continued to be supportive of the broad investment market with growth stocks particularly benefitting relative to value stocks. Patience by the Fed with respect to fiscal policy, strong corporate earnings, and positive fund flows are supportive of the current investment environment.

Pallas Capital Advisors will continue to monitor economic, political, and corporate data for implications to markets.