

WEEK IN REVIEW

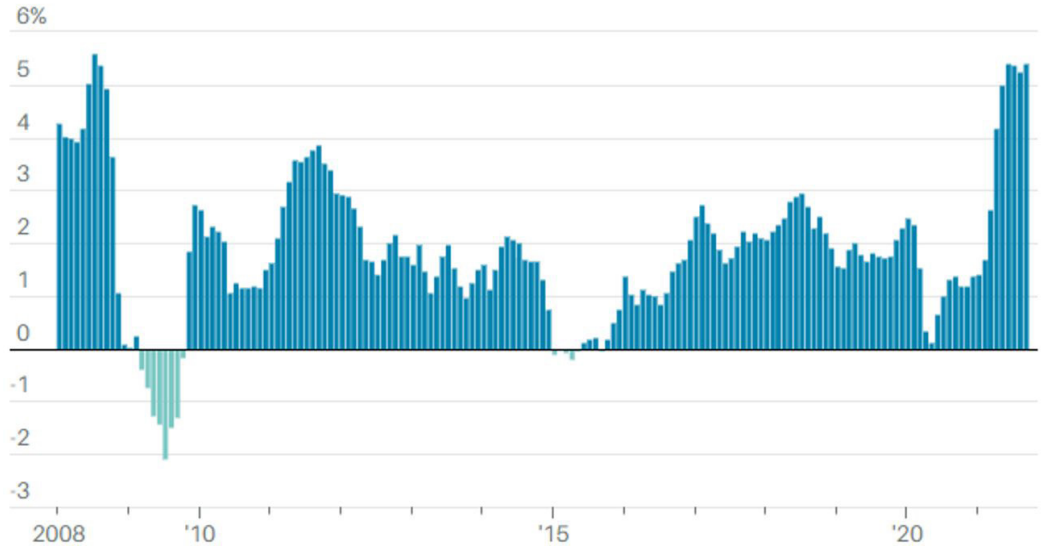
FRIDAY, OCTOBER 15TH, 2021

1. CONSUMER PRICE INDEX DATA FOR SEPTEMBER SHOWS ON-GOING INFLATIONARY PRESSURES

The Consumer Price Index (CPI) was released this week and showed the continuing trend of higher year-over-year inflation. For September, the annual rate of increase came in at 5.4%, matching the level reached in June and July.

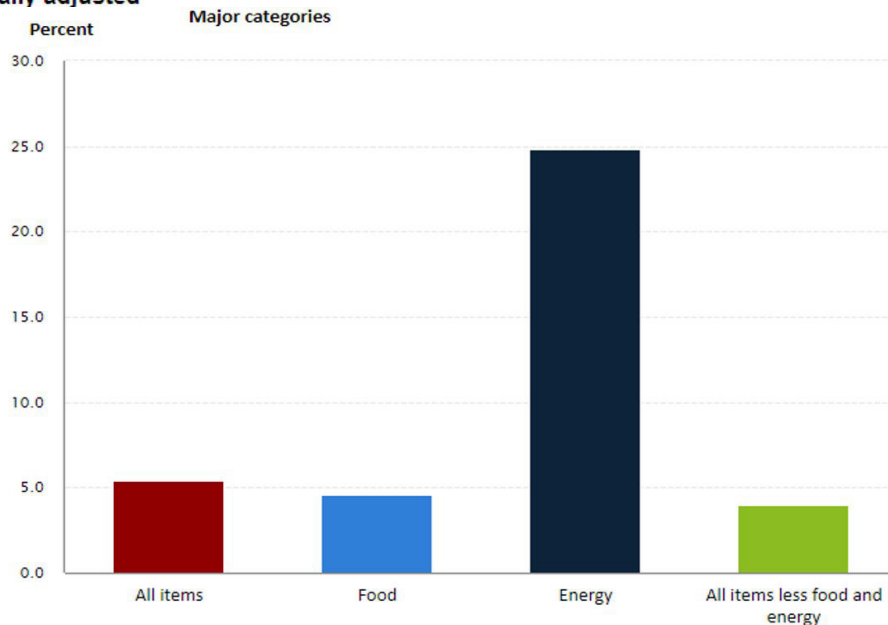
Drilling down, the categories with the highest relative growth were energy, food, and new cars. Energy grew at a rate of nearly 25% year-over-year.

Food saw the largest increase on a sequential month-to-month basis of 0.9%, and a 4.6% rate of growth year-over-year. Excluding energy and food, the index grew at 4.0%.



Source: Labor Department via St. Louis Fed

12-month percentage change, Consumer Price Index, selected categories, September 2021, not seasonally adjusted

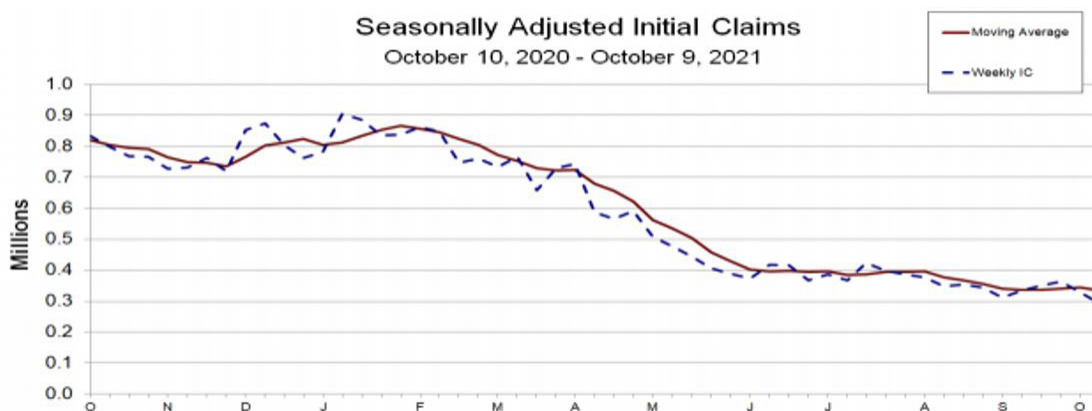


Source: US Bureau of Labor Statistics

Given recent factors such as the continued rise in oil and natural gas prices and ongoing supply constraints for distribution, it should be expected that pressure will remain for above-trend inflation.

2. IMPROVING TRENDS SEEN IN MEASURES OF EMPLOYMENT

Data was released this week by the Department of Labor that showed seasonally adjusted initial claims for unemployment insurance came in at 293,000, a decrease of 36,000 from the previous week. This is the lowest level for initial claims since March 14, 2020, just prior to the pandemic crisis. The figure was also below expectations.



Source: US Department of Labor

The reduction in layoffs is positive and one part of the equation towards increasing overall employment levels. The other part of the equation in increasing employment is finding enough people to fill the backlog of open positions.

A significant factor to overcome is the labor participation rate which at 61.6% in September has yet to recover to the pre-pandemic level of approximately 63%. The delta equates to over 2.2 million jobs.



Source: US Bureau of Labor Statistics, St Louis Fed

It is not known how long this shortage will exist but with the phase-out of federal jobless benefits, the recent reduction in COVID-19 cases, and improving employee pay improvement is expected. However, in the meantime, labor shortages are contributing to slower economic growth and higher inflation.

THINKING AHEAD

The CPI and Labor data this week were supportive of the case for the Federal Reserve to start tightening monetary policy sooner rather than later. This week also saw the commencement of third-quarter corporate earnings reports which have so far been well received. Both the macro and micro additional data points suggest the economy is continuing to grow and adapt to the next stage in the recovery from the myriad of issues encountered because of the pandemic.

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

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