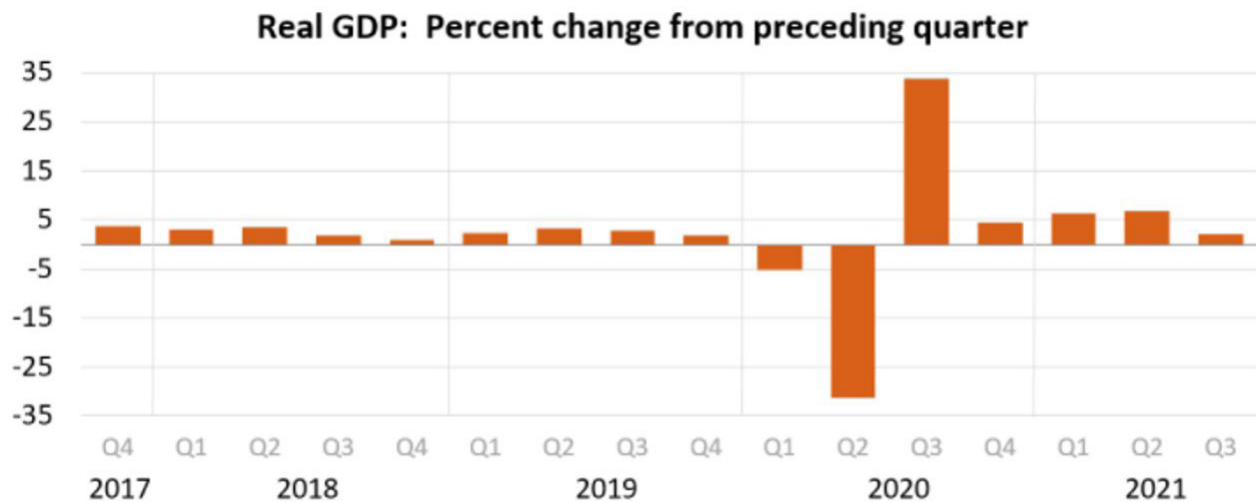


WEEK IN REVIEW

FRIDAY, OCTOBER 29TH, 2021

1. GDP GROWTH SLOWS DURING THIRD QUARTER

Real gross domestic product (GDP) increased at an annual rate of 2.0% in the third quarter of 2021 according to the Bureau of Economic Analysis (BEA). While positive, the rate of growth was down from 6.7% realized in the second quarter.

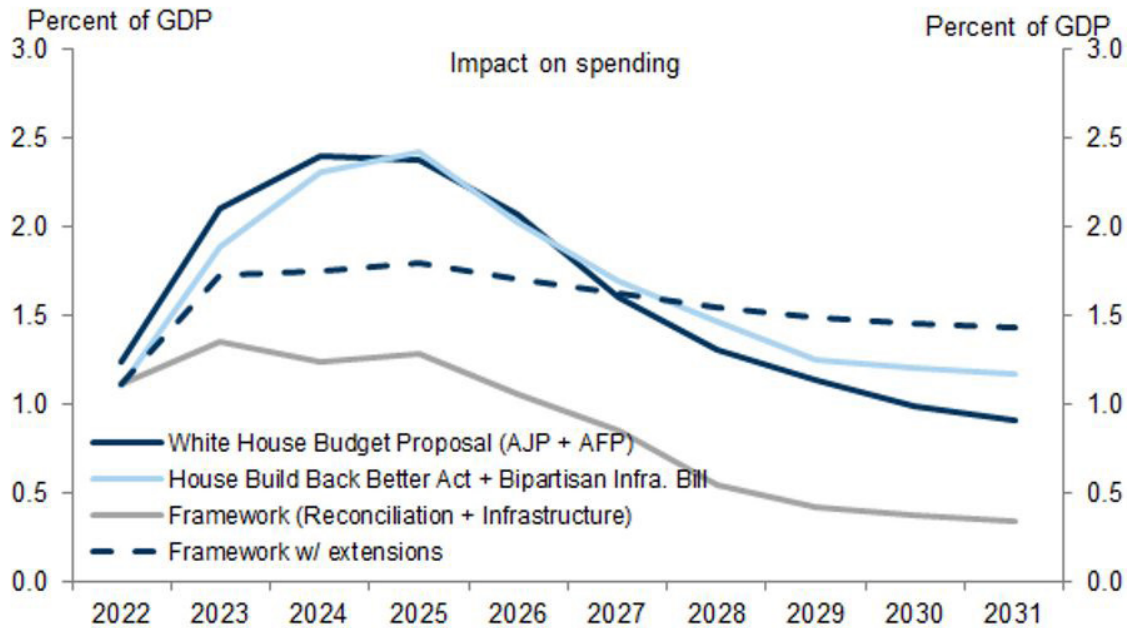


The slowdown in growth was expected as a result of the continued economic impact of the COVID-19 pandemic and supply chain constraints. A resurgence of COVID-19 cases in the summer resulted in further restrictions and delays in the reopening of activity in some parts of the country. Supply chain constraints have had a particular influence on motor vehicles and parts, which declined from the second quarter and deducted 2.3% from GDP. Another factor associated with the slowdown was a reduction in stimulus payments.

On the positive side, the economy is still expanding, COVID-19 cases are down, supply chain disruptions appear to have peaked, and personal income has increased. These factors suggest that the economy will still be able to grow at an above-trend level over the next year.

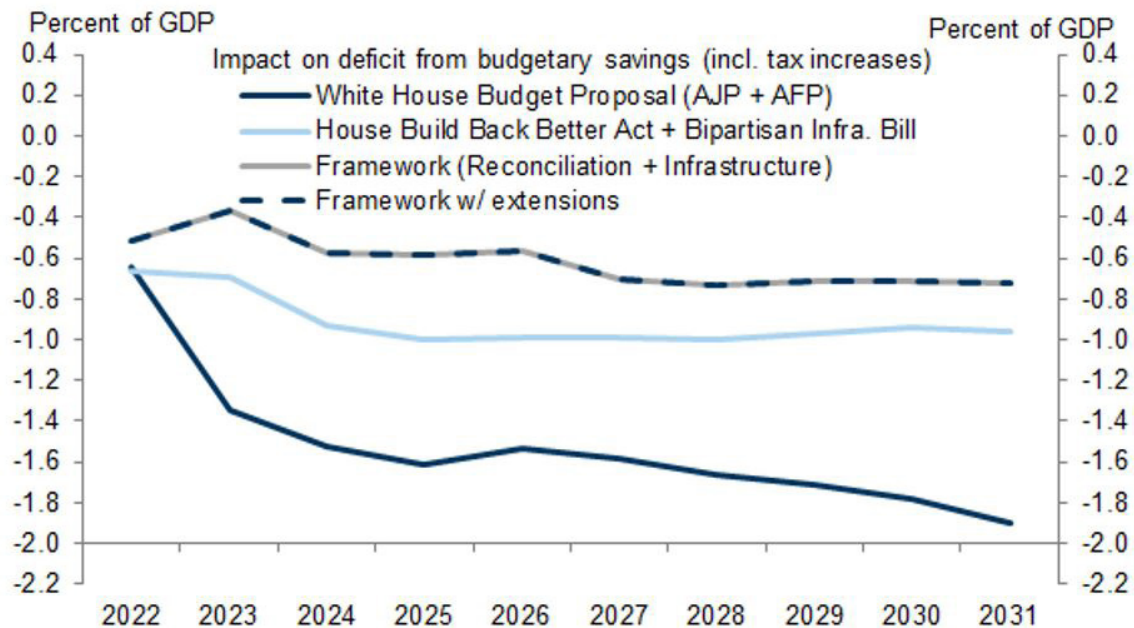
2. BUILD BACK BETTER (BBB) LEGISLATION PROGRESSES AT A REDUCED LEVEL

A proposed \$1.75 trillion reconciliation spending plan, the Build Back Better Plan (BBB), was proposed this week. The BBB would provide funding for many of the initially proposed initiatives, but the funding for the programs longer-term depends on the approval of future extensions. This would result in the profile of the spending being front-loaded and declining over time. The following graph shows the annual impact on spending over ten years for the combined reconciliation and bipartisan infrastructure plans. The bottom line represents the latest proposal and shows the lowest level of expenditure.



Source: White House, Joint Tax Committee, Congressional Budget Office, Goldman Sachs Global Investment Research

Funding for the plan is proposed to come mostly from tax increases that would be spread more evenly over the ten-year period. As a percentage of GDP, the newly proposed framework would be far less impactful than the original White House proposal.



Source: White House, Joint Tax Committee, Congressional Budget Office, Goldman Sachs Global Investment Research

Notable changes in taxes would come from a higher corporate tax rate including a minimum of 15% on net income over \$1 billion, targeting large multinationals. For personal taxes, the proposal targets higher incomes and would increase the top marginal tax rate to 39.6% and a surtax of 5% on incomes over \$10 million, and an additional 3% on income over \$25 million.

While it is still early to tell the likelihood of the proposal passing, the overall framework appears to have the general support of Democratic centrists as spending is lower and covered by a more moderate increase in taxes.

THINKING AHEAD

Measured progress is being made with respect to the economy and legislation that will impact the investment landscape. Directionally, factors remain positive. Pallas Capital Advisors will continue to monitor economic, political, and corporate data for implications to markets.

The information contained herein is for informational purposes only, is not personalized investment advice and should not be construed as a recommendation to purchase or sell any particular security, sector or strategy to any individual person or entity. The decision to review or consider the purchase or sale of any security, sector or strategy mentioned should not be undertaken without consideration of your personal financial information, investment objectives and risk tolerance with your financial professional. Past performance should not be considered as an indicator of future results.

Investment Advice offered through Pallas Capital Advisors LLC, a registered investment advisor.