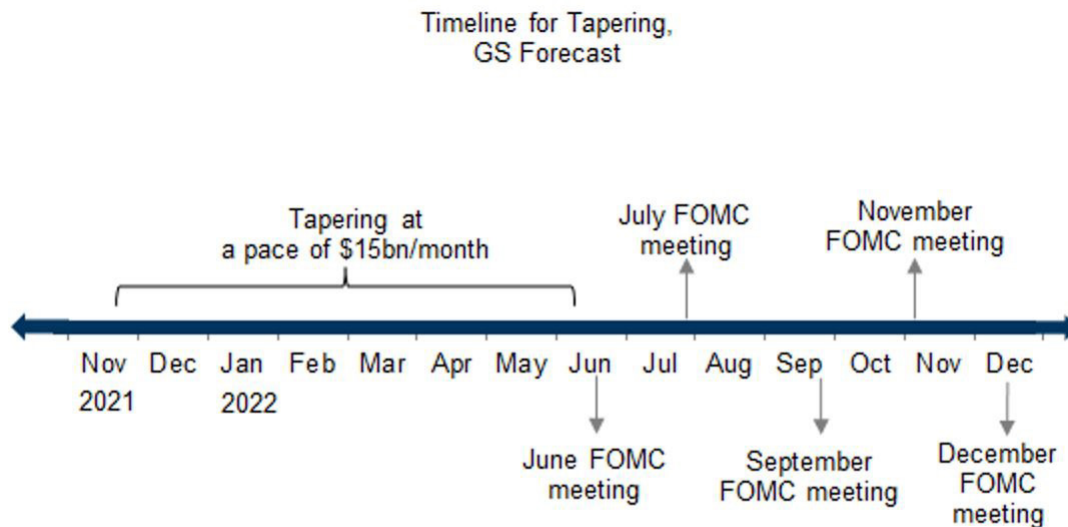


# WEEK IN REVIEW

FRIDAY, NOVEMBER 5TH, 2021

## 1. TAPERING HAS COMMENCED

On Wednesday of this week, the Federal Open Market Committee (FOMC) announced the long-awaited plan to start tightening monetary policy with a plan to reduce bond purchases in November at a pace of \$15 billion per month which would result in a plan to end purchases by mid-2022. However, an announcement to increase the discount rate is not anticipated to occur prior to one of the FOMC meetings in late 2022 at the earliest.



Source: Goldman Sachs Global Investment Research

The onset of tapering indicates the confidence in the economic recovery. It also indicates that the Federal Reserve (FED) is acting to control inflation. Inflationary concerns are high on the list for the timing of a change in the discount rate, but at this juncture, the message from the FED remains that they see above-trend inflationary pressures as being largely transitory.

The market reaction has been muted as measured by the movement in the 10-year treasury yield which has, in fact, declined somewhat. This suggests that the market is comfortable that, while tapering has commenced, the threat of a taper tantrum has been averted. This has been supportive of performance in the market when coupled with a generally strong earnings season, declining pandemic headwinds, and recovering job market.

## 2. OCTOBER JOBS REPORT SHOWS REACCELERATION

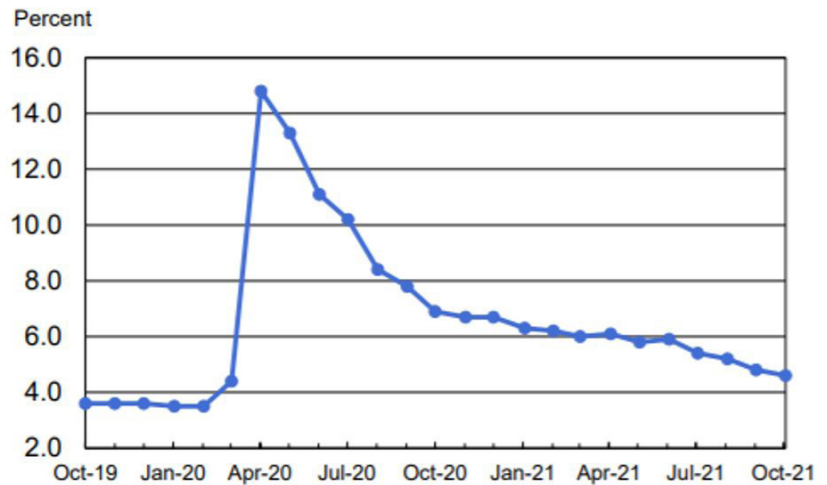
The Bureau of Labor Statistics (BLS) released the October job reports on Friday. The increase in total non-farm employment was 531,000, the biggest jump since July, and positive revisions were also made to August and September jobs.

Given the strength in October's jobs and the positive revisions, unemployment dropped to 4.6%. Unemployment remains above pre-pandemic levels but the trend suggests the gap is closing.

Growth in jobs has been broad-based with every category outside of government adding jobs in October. In terms of job gains, both goods-producing and service companies saw meaningful gains.

The decline in government jobs is noted as being challenging to interpret. The BLS indicates it emanates from a decline in local and state government education employment. In addition to positive job growth, the BLS also reported the continued trend in wage growth.

**Chart 1. Unemployment rate, seasonally adjusted, October 2019 – October 2021**



Source: Bureau of Labor Statistics

Category	Oct. 2020	Aug. 2021	Sept. 2021 <sup>P</sup>	Oct. 2021 <sup>P</sup>
<b>EMPLOYMENT BY SELECTED INDUSTRY</b> (Over-the-month change, in thousands)				
Total nonfarm.....	680	483	312	531
Total private.....	954	504	365	604
Goods-producing.....	107	54	65	108
Mining and logging.....	2	6	4	4
Construction.....	73	-1	30	44
Manufacturing.....	32	49	31	60
Durable goods <sup>1</sup> .....	12	34	20	41
Motor vehicles and parts.....	-6.5	14.6	-5.6	27.7
Nondurable goods.....	20	15	11	19
Private service-providing.....	847	450	300	496
Wholesale trade.....	9.2	-5.2	7.3	13.5
Retail trade.....	106.5	22.2	57.3	35.3
Transportation and warehousing.....	71.3	67.3	57.4	54.4
Utilities.....	-1.5	-2.2	-0.2	0.2
Information.....	-9	33	4	10
Financial activities.....	34	17	7	21
Professional and business services <sup>1</sup> .....	241	139	76	100
Temporary help services.....	121.2	27.4	6.1	41.1
Education and health services <sup>1</sup> .....	83	72	13	64
Health care and social assistance.....	93.0	13.7	34.0	46.9
Leisure and hospitality.....	265	71	88	164
Other services.....	48	36	-10	33
Government.....	-274	-21	-53	-73

Source: Bureau of Labor Statistics

As companies continue to note difficulty filling open positions, and with the decline of COVID-19 cases and the ongoing phase-out of additional unemployment benefits, the positive trends in employment are expected to continue. This is supportive of the FOMC decision to commence tapering and could even lead to an acceleration in the phase-out of the bond-buying program in the ensuing months.

## THINKING AHEAD

Data points this week point to a reacceleration for employment and a move to normalization in monetary policy. Coupled with another positive quarter of results for corporate earnings, the investment environment has seen the markets reaching new high-level marks.

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

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