

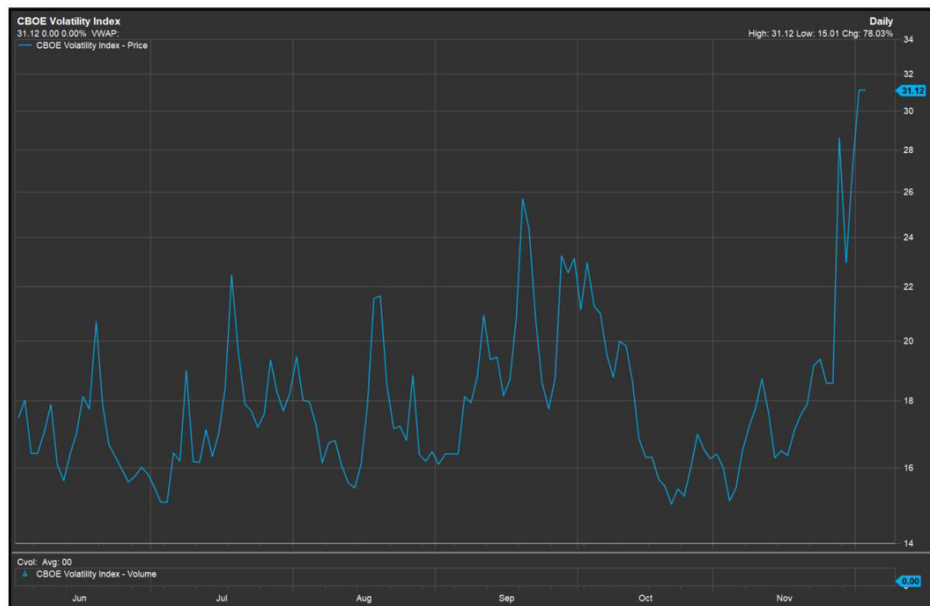
WEEK IN REVIEW

FRIDAY, DECEMBER 3RD, 2021

1. COVID VARIANT OMICRON INCREASES MARKET VOLATILITY

While millions across the country gathered with friends and family to celebrate the Thanksgiving holiday, the news from across the ocean was that a new variant of COVID designated as Omicron had been discovered in South Africa. Initial reports indicated that the variant was concerning, but more research needs to be conducted to determine how contagious or lethal this variant is versus other strains.

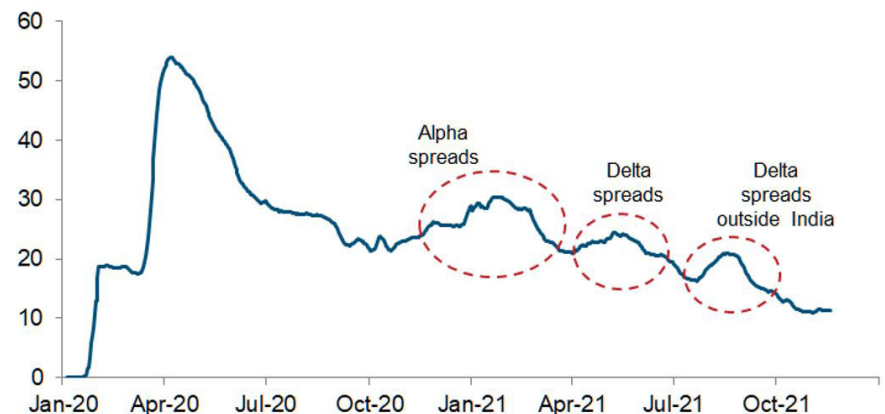
The market responded quickly, though with significant moves down and up in the ensuing days after the release. This outcome is illustrated by the spike in the CBOE Volatility Index, which had been in a downward trend since the summer.



The potential scale and impact of Omicron is not known at this time, but the economy has already dealt with multiple variants so far this year. Goldman Sachs has developed a Lockdown Index to look at successive waves of COVID and its variants.

Perhaps a case for optimism can be found that each successive wave of COVID has resulted in lower highs and then a continued decline in disruption.

GS Global Effective Lockdown Index, 7DMA



PPP weighted.
Source: Goldman Sachs GIR.

2. FOMC DISCUSSES ACCELERATION OF TIGHTER MONETARY POLICY

Chairman of the Federal Reserve, Jerome Powell, said that he expects to discuss accelerating the taper and ending asset purchases sooner at the upcoming Federal Open Market Committee (FOMC) meeting. The Chairman's hawkish comments noted that the economy is very strong and inflationary pressures are high and that the threat of persistently higher inflation has grown.

Following the Chairman's comments, expectations have risen for the end of asset purchases to take place in the spring which could then be followed by the first-rate increase. Consensus estimates place the highest probability for the first-rate hike to occur in June with the possibility of one or even two more prior to the end of 2022.

Coming during a week of heightened volatility for the market and concerns about the latest variant Omicron, the reaction of the treasury market saw a significant reduction in the yield curve as the 2-year treasuries rose reflecting an increased expectation for higher rates, while the 10-year treasury decline possibly reflects concerns about longer-term growth.



Source: Factset

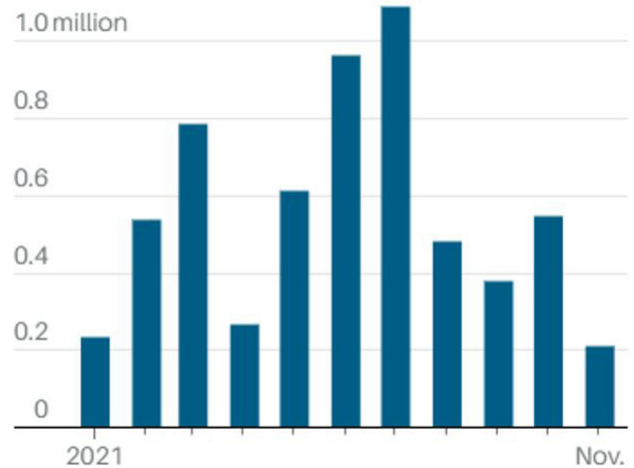
The 10-year treasury remaining low post hawkish comments by Chairman Powell remains reflective of a cautious, defensive investment stance while greater clarity on the impact of Omicron and longer-term growth prospects more generally are sifted.

3. EMPLOYMENT DATA FOR NOVEMBER DECELERATES

The US added 210,000 jobs in November, according to data released by the Department of Labor which came in well below consensus for 535,000 jobs and the lowest number recorded in 2021. While the number may in fact end up being revised upwards as previous months have experienced, the number was still surprisingly low.

Despite the lower number for job growth, unemployment declined to 4.2% from 4.6% in October. The driver of the lower job growth appears to be rooted in the stubborn decline in workers looking to reenter the worker pool. As of November, the civilian labor force was down 2.4 million participants compared to February 2020.

The lower level of job growth may influence the Federal Reserve's discussion around the pace of tightening policy, but the tightness in the labor market argues for continuing to remove stimulus.



Note: Seasonally adjusted.
Source: Labor Department.

THINKING AHEAD

The past week has seen heightened volatility as the markets assess the latest COVID variant, persistent inflation raises the discussion for quicker Fed tightening, and the labor market decelerates despite lower unemployment.

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.