PALLAS
CAPITAL ADVISORS

Pallas Perspective

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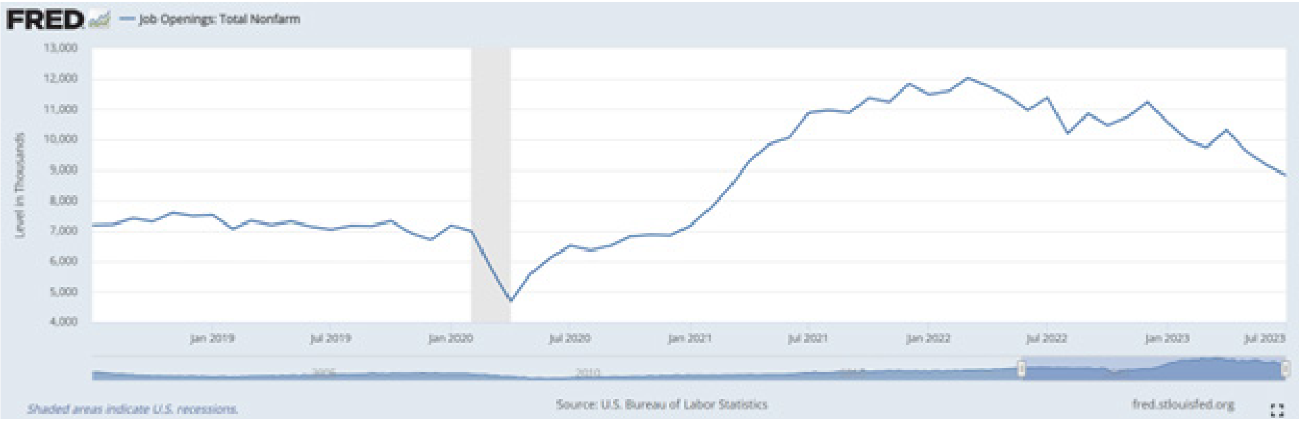
Navigating Economic Trends: Financial Performance Amidst Persistent Inflation and Elevated Interest Rates.

Financial markets continue to closely monitor the direction of inflation, economic activity, and Federal Reserve Policy. In the past week, data has been released on employment openings, the latest changes in personal consumption expenditure, and Federal Reserve Chairman Powell elaborated on Fed policy at the group's annual meeting at Jackson Hole.

In terms of economic activity, employment activity shows a moderation in unfilled job openings and a decrease in filled jobs. While suggestive of slower economic activity as employers pull back on growth initiatives, job openings remain high and job growth is healthy from a longer-term historical perspective, indicating a healthy moderation from the high levels seen following covid recovery in late 2021 and 2022.



Continuing to exhibit moderation on a year-over-year basis, the personal consumption expenditures (PCE) price index, considered to be the Fed's preferred inflation gauge, increased by 3.3% in July compared to the previous year, meeting the anticipated 3.3% rise. Excluding the volatile food and energy components, the core PCE price index also grew by 4.2% in July, year-on-year in July, aligning with estimates.

Personal Consumption expenditures (pce)

Price indexes:	Percent change from month one year ago				
PCE	4.2	4.3	3.8	3.0	3.3
PCE, excluding food and energy	4.6	4.6	4.5	4.1	4.2

Source: U.S. Dept of Commerce

While continuing the trend of lower growth year-over-year, the data did show an uptick in expenditure driven by increased consumer spending on services, which increased 5.2% over 12 months, while consumption on goods dropped by 0.5%. The data for July also surpassed the June figures, partly due to year-over-year comparative data anniversaries involving peak inflation data from the previous year.

Coupling the data with the most recent Federal Reserve comments suggests that peak interest rates are likely near, if not already in place. A low probability is being attributed to another Federal Funds rate increase in September, along with a 50% chance of a further ¼ point increase in November. On the other hand, the case for holding rates higher for longer, as inflation remains well above the Federal Reserve's goal of 2% and the job market remains healthy and more balanced, is now entrenched. Financial market implications suggest that bond yields should remain elevated compared to historic levels, and the potential for further multiple expansion driving higher valuations in the equity markets is likely limited.

Looking ahead, financial performance will likely be contingent on the direction of economic growth, as consumers and businesses navigate inflation and interest rates that appear poised to remain structurally higher than those of the past two decades.

Pallas Capital Advisors will continue to monitor the investment landscape and look to position portfolios to navigate through the current environment while keeping on course with the long-term goals of our clients.

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