October 16, 2020

10/16/2020		Wk	Wk		YTD	12 Mos
		Net	%	Div	%	%
STOCKS	Close	Change	Change	Yield	Change	Change
DJIA	28,606.31	19.41	0.07	2.15	0.24	5.85
S&P 500	3,483.81	6.68	0.19	1.72	7.83	16.29
NASDAQ	11,671.56	91.61	0.79	0.82	30.08	43.23
S&P MidCap 400	1,997.34	0.98	0.05	1.73	-3.18	3.80

TREASURIES	Yield	**FOREX**	Price	Wk %Change
2-Year	0.14	Euro/Dollar	1.17	-0.80
5-Year	0.32	Dollar/Yen	105.42	-0.23
10-Year	0.75	GBP/Dollar	1.29	-0.53
30-Year	1.53	Dollar/Cad	1.32	0.48

Source: Bloomberg/FactSet

What Caught Our Eye This Week

Over the last five years, global casino revenue has grown 1% to 4% while online gambling revenue has grown around 10%. With the return of pro sports this summer and more recently the start of pro football season, sports betting operators have ramped up their ad spending and are seeing strong returns. Competitors DraftKings and FanDuel (owned by Flutter Entertainment in Ireland), the two major players in sports gambling, recently announced a partnership with Turner Sports (a division of Warner Media owned by AT&T). The goal of the partnership is brand exposure and positioning as the two companies look to drive engagement and increase market share. After a failed attempt to merge in 2017, both companies (neither is profitable) now seek to navigate the lucrative world of iGaming (an all-encompassing term used for betting on the outcome of an event or game including poker, online casinos and sports betting). The competition will be fierce as casinos want a piece of the pie and tech savvy European operators enter the U.S. market. Currently, 18 states and Washington, D.C are already active in sports betting; 4 other states have passed legislation but are not active and 25 states have active bills with a few on the November ballot.

Economy

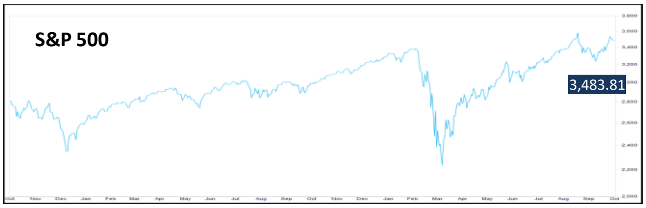
The most anticipated report this week was the retail sales report, which was released on Friday. Retail sales increased 1.9% in September easily surpassing consensus expectations. The strength was broad based across the major retailing categories with only electronic sales posting a decline. The "control" category, which excludes food service, autos, gas and building materials advanced 1.4%. This is the best performance for the "control" category since June, and overall retail sales are up 5.4% year-over-year. Also on Friday industrial production numbers disappointed, showing a decline of 0.6% in September, while manufacturing output fell 0.3%. In other news this week the consumer price index data was released on Tuesday and posted a 0.2% increase in September, which was right in line with expectations. The CPI is now up 1.4% year-over-year, but over the past three months the CPI is up 4.7% at an annualized rate. On Wednesday the producer price index showed a 0.4% gain in September and is now up 1.4% over the past 12 months. The "core" PPI also increased by 0.2%, as the index for hardware, building materials and supplies surged 13.8%. Finally, the University of Michigan consumer sentiment index inched up from 80.4 in September to 81.2 in the preliminary October report.

Fixed Income/Credit Market

Ultra-low interest rates and accommodative central banks have been a major boon to fixed income investors in 2020, particularly those riding the flight-to-quality wave. According to Bloomberg's Key Indices performance gauge, U.S. Treasuries lead all fixed income sectors with an 8.58% total return year-to-date (YTD). Furthermore, the high-quality Bloomberg Barclays U.S. Government/Credit index has returned 8.12% this year. Both indices have significantly outperformed the broader U.S. Aggregate index (Aa1/Aa2) which has returned 6.82% YTD – a favorable fixed income return in a world wrought with economic uncertainty. High-quality performance has not been isolated to U.S. markets as global Treasuries have returned 6.43% YTD. Demand for high-grade bonds, historically low interest rates, and global central bank support have buoyed investment grade performance. Additionally, high quality duration has performed exceptionally well year-to-date with the 10-year and over maturity bucket up 14.40%.

Equities

Following a lackluster September which saw the S&P 500 decline 3.9%, stocks have rebounded nicely posting three consecutive weeks of gains. Most of the strength this week came on Monday due to a rally in growth and momentum stocks which helped the Nasdaq register its best single-day return since early September. Third quarter earnings season kicked off on Tuesday with big banks such as JP Morgan and Citigroup beating earnings expectations; although, it seems that investors were more focused on coronavirus and fiscal stimulus news. Johnson & Johnson announced that its coronavirus vaccine trials have been paused due to an unexplained illness in a study participant, and Eli Lilly confirmed that it has paused its Covid antibody trial due to a potential safety concern. On Wednesday, Treasury Secretary Steven Mnuchin said that getting a fifth coronavirus relief bill passed before the election will be difficult and that talks are far apart on issues like state aid. The S&P 500 declined over 0.6% on both Tuesday and Wednesday. Stocks finished the week on a positive note after September retail sales handily beat expectations showing strength in the American consumer. The industrial sector was the best performer gaining 1.10% while real estate lagged posting a 2.31% decline.



Our View

For over a decade the world has relied heavily on central banks to implement extraordinary monetary policy to heal the global economy from the scars of the financial crisis. Although monetary policy has been efficacious historically at controlling inflation, when rates are at their lower bound, stimulating credit growth in conjunction with economic growth can be an arduous task. Fiscal stimulus on the other hand, can be more impactful in the current environment given that aid can be channeled and directed to households, companies and municipalities that need it the most. The International Monetary Fund (IMF) hosted meetings this week and a major theme was that more fiscal policy stimulus is needed even though budget deficits could grow substantially. Moreover, governments globally have already spent approximately $12 trillion thus far this year and global public debt is on track to surpass 100% of GDP by 2022. The IMF has historically been a proponent of budget restraint, but given the horrific impact of the pandemic, it now indicates the biggest risk is premature withdrawal of fiscal stimulus. Here in the U.S., fiscal support has been robust to this point and the deficit is projected to reach $3.3 trillion in 2020 according to the Congressional Budget Office (CBO). Moreover, the CBO projects net debt to grow to 108.9% of GDP by 2030. Many people recognize the suffering that is being experienced due to Covid-19 and the need for further fiscal stimulus, but they also wonder how much more capacity the U.S. has to borrow. The low interest rate environment promulgated by the Federal Reserve has certainly helped matters as the Federal budget shows net interest expense totals only 5% of overall spending. Ultimately the market will decide when the U.S. deficit is too extreme by demanding additional compensation to purchase its debt. It is not the aggregate level of debt that matters most, but rather its relationship to GDP and future projected economic growth rates. The long run GDP growth rate projected by the FOMC is lackluster and slightly below 2%, but given the fact that the market has already allowed Japan to exceed 200% of debt to GDP and the U.S. dollar is the world's reserve currency, the borrowing potential of the U.S. has ample runway.

COMING UP NEXT WEEK		Consensus	Prior
10/20 Housing Starts SAAR	(Sep)	1,475K	1,416K
10/22 Initial Claims SA	(10/17)	850.0K	898.0K
10/22 Leading Indicators SA M/M	(Sep)	0.65%	1.2%
10/23 Markit PMI Manufacturing SA (Prelim)	(Oct)	55.0	53.2
10/23 Markit PMI Services SA (Prelim)	(Oct)	55.2	54.6

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