CHANDLER ASSET MANAGEMENT

Economic highlights from the week ending on November 20, 2020

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Consumer spending trends were a bit softer than expected but remained healthy in October. On a year-over-year basis, retail sales were up 5.7% in October (a solid increase) versus 5.9% in September. On a month-over-month basis, retail sales increased 0.3% in October (versus the consensus forecast of 0.5%), driven in part by strong vehicle sales. Excluding vehicles and gas, retail sales increased just 0.2% versus expectations of 0.6%. On a seasonally adjusted basis, October retail sales eased in several categories including clothing, furniture, general merchandise, restaurants, and sporting goods. Meanwhile, non-store (i.e. online) sales remained very strong in October, which was likely driven in part by the shift of Amazon Prime Day into October this year. According to the National Retail Federation, 42% of consumers started their holiday shopping early this year and consumers surveyed planned to spend an average of $997.79, down about 5% from last year. Looking ahead, we believe rising COVID-19 cases, regional lockdowns and other social distancing measures, still high levels of unemployment, and the absence of additional fiscal relief could weigh on consumer confidence and spending levels over the next few months.

While COVID-19 case numbers and hospitalization rates continue to rise at an alarming rate, there were several positive developments on the therapeutic and vaccine front this week. Pfizer and its partner BioNTech filed for emergency use authorization from the Food & Drug Administration (FDA) for its COVID-19 vaccine today. Earlier this week, Pfizer said a final analysis of its clinical trial showed the vaccine to be 95% effective with very limited side-effects. If approved by FDA, Pfizer estimated it could have 50 million doses of its vaccine available by year-end (25 million for use in the U.S.), with more to come in 2021. Moderna appears to not be far behind and said earlier this week its vaccine candidate is 94.5% effective, based on a preliminary analysis. Moderna will likely have a final analysis in the coming weeks and has indicated that enough doses for 20 million people (globally) could be ready sometime in December if it is approved. The University of Oxford, meanwhile, confirmed this week that the vaccine it is developing with AstraZeneca produced strong immune responses in older adults in an early study, and they plan to have final efficacy results in the coming weeks. Johnson & Johnson expects to know the efficacy of its vaccine candidate by January or February. In addition, Eli Lilly and partner Incyte said the FDA has granted emergency use authorization for their therapeutic drug baricitinib to be used in combination with remdesivir to treat hospitalized COVID-19 patients. The FDA already granted emergency use authorization for Eli Lilly's investigational neutralizing antibody bamlanivimab on November 9th. While widespread distribution of a vaccine may still be several months away, drug makers are making meaningful progress on both vaccines and therapeutics which should be a positive catalyst for economic growth in 2021.

Overall, we remain optimistic about the recovery, especially in the back half of next year, but near-term headwinds from the pandemic and lack of additional fiscal relief continue to present downside risks. Furthermore, the US Treasury Secretary Steve Mnuchin indicated yesterday that some of the Federal Reserve's emergency lending facilities (which were created to help stabilize the financial markets earlier this year) will not be renewed when they expire at the end of the this year. This includes the Fed's corporate credit, asset-backed securities, municipal lending, and Main Street Lending programs. Secretary Mnuchin has requested that the Fed return the unused funds currently earmarked for those facilities to the Treasury. It is possible that Congress will reallocate those funds for fiscal relief, and we continue to believe that an additional fiscal relief package is likely to come to fruition in the coming months, despite the ongoing stalemate. However, the termination of many of the Fed's lending facilities could weigh on market technicals in the near-term. If financial market volatility were to pick up significantly, which is not our base case, we believe the Fed would request approval to reestablish those programs.

Due to the upcoming Thanksgiving holiday, the next weekly economic report will be published on Friday, December 4th.

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