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Week in Review

November 20, 2020

Treasury vs. The Fed?

Treasury Secretary Steven Mnuchin announced plans to let several programs set up in the wake of the pandemic expire on December 31, including the Main Street Lending program as well as facilities designed to protect the corporate and municipal bond markets. Mnuchin indicated that these facilities have served their purpose. The Fed disagreed, stating that they "would prefer that the full suite of emergency facilities established during the coronavirus pandemic continue to serve their important role as a backstop for our still-strained and vulnerable economy."

Our Take: Government intervention in markets is very rarely cost-free and is often accompanied by unintended consequences. Markets are currently functioning without aid and the expiration of these programs is likely to have little effect. The Treasury has the ability to reinstate the programs if needed. For now, they are not.

Retail Sales

October retail sales rose 0.3%. September sales were revised lower, from 1.9% to 1.6%.

Our Take: October sales were slower than expected, but the recovery in sales from the March and April lows has been remarkable. Retail sales in September and October were ahead of the pre-pandemic trend. As with everything these days, the resurgence of the virus may exact a toll. Regulations surrounding business closures and lockdowns could affect future sales.

Employment

Initial jobless claims rose last week from 711,000 to 742,000. Continuing claims fell from 6.8 million to 6.3 million.

Our Take: Employment gains are slowing and there is still a long way to go to recover all of the jobs lost due to the pandemic. The first order of business is to control the spread of the virus, which is proving difficult. Gains in employment statistics will likely slow further as COVID continues to surge.

Municipals

New Jersey issued $3.7 billion in tax-exempt debt this week. The proceeds from the bond offering will be used to close part of the state's budget gap created by the loss of revenue due to the pandemic.

Our Take: The timing of the bond deal was favorable for New Jersey and the new issue was oversubscribed. In addition, the current low interest rate environment will help keep New Jersey's borrowing costs down for this new issue.

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