

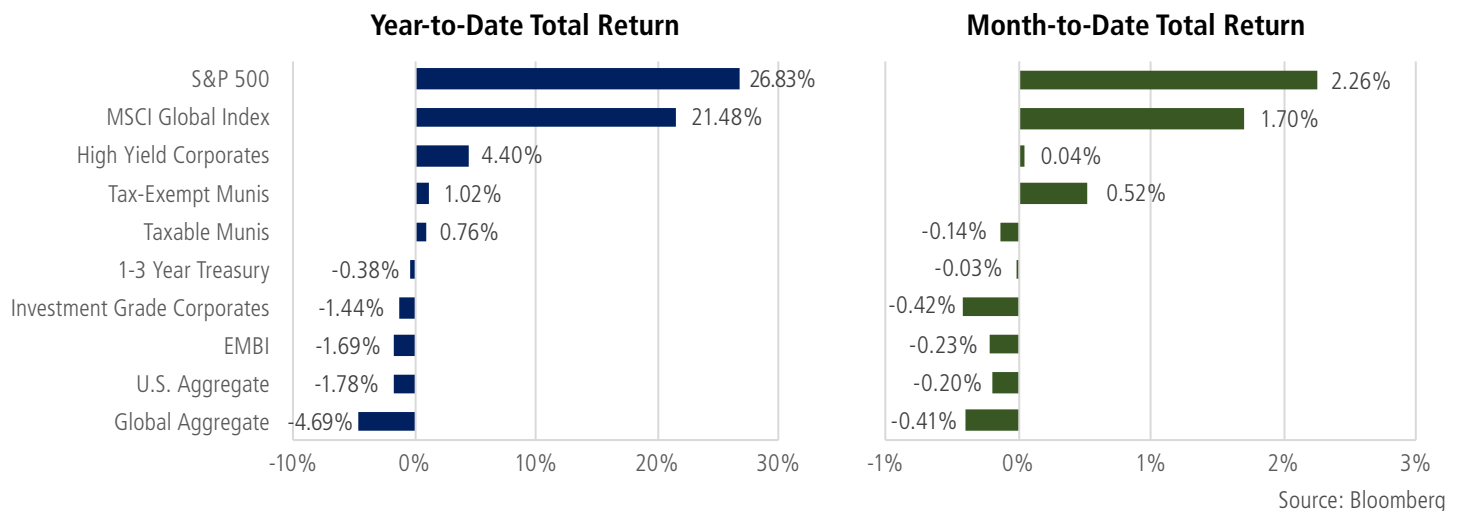
Week Ending: **November 19, 2021**

## Buy Nothing

### Economic Overview:

U.S. retail sales for October topped expectations this week, with overall sales rising 1.7% month-to-month, leading to speculation that consumers are taking higher prices in stride and continuing to buy. Some caution with the data is warranted, though. First, retail sales reports are adjusted for seasonality but not inflation. If you subtract the monthly increase in core goods inflation from the figure, sales were up only 0.7% on the month. Second, consumer sentiment readings have plunged lately due, in part, to higher prices. When queried whether the next few months provide an opportune time to buy a vehicle, for example, consumers replied with a resounding “no.” Historically, consumer sentiment is a leading (or at least a coincident) indicator of a spending slowdown. However, 2021 has been “different” in so many ways. Will the sentiment dip be another example? [Time will tell if a recent Wall Street Journal headline that proclaimed the solution to high prices was to “buy nothing” will ultimately be the route consumers take.](#)

### Total Returns by Asset Class



### Highlights of the Week:

**High Yield:** High yield spreads are trading tight compared to historical ranges, but an abundance of rising star candidates are responsible for dragging headline numbers down. As of the end of October, rising star candidates, or bonds rated BB1 or BB2 with a positive outlook from at least one ratings agency, traded a whopping 125 basis points tighter than the rest of the BB/B index.

**Corporates:** Despite low consumer confidence and record inflation numbers, consumers continued to spend. Data showed retail sales rose by 1.7% in October, the largest jump in seven months. A slew of retail earnings this week backed the economic data with big box retailers such as Target, Walmart, Lowes and Home Depot all posting quarterly top and bottom-line beats. Even department stores such as Kohl’s and Macy’s crushed expectations. Overall, it is shaping up to be a very strong holiday season.

**Securitized Products:** After a long hiatus, the Los Angeles auto show returned this week with Hyundai, Toyota, Subaru and Kia unveiling their 2023 electric vehicle (EV) concepts. One of the most highly anticipated debuts was the Ocean SUV from Manhattan Beach EV company, Fisker Inc. The base model offers 250 miles of range, acceleration under 7 seconds, and a starting price of \$37,499. Production for the Ocean will begin in November 2022 and reservations are currently available for a \$250 deposit.

**Municipals:** California’s Legislative Analyst’s Office projects a large budget surplus of \$31 billion for fiscal year 2022, marking the state’s second year of revenues exceeding expectations as revenues continue to grow at historic rates. The surplus is expected to allow Governor Newsom to pursue his priorities such as increasing infrastructure spending and paying down State pension debt.

**Equities:** The U.S. equity market rallied this week as strong retail sales and improving supply chain issues offset renewed Covid concerns in Europe. Consumer discretionary and information technology (IT) posted strong positive returns, while energy and financials posted losses for the week.