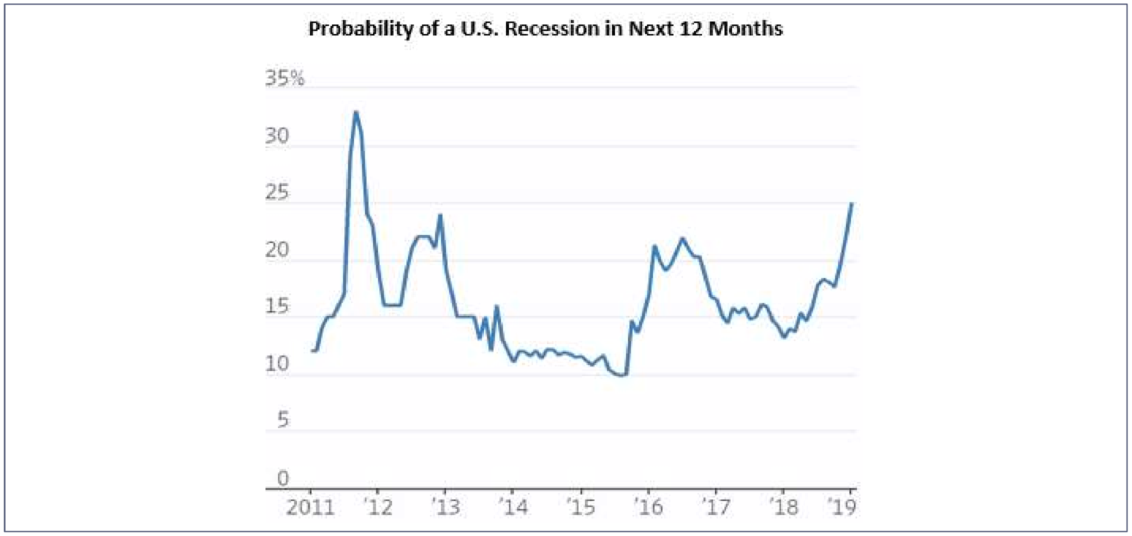
Market Recap

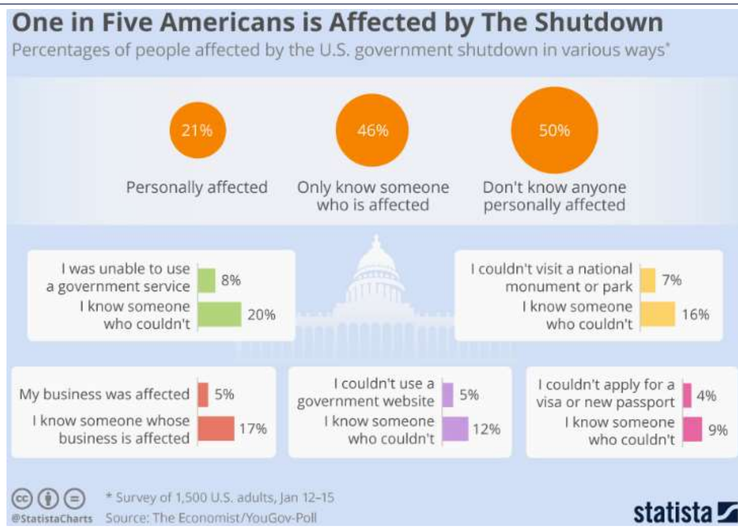
Recession Odds on the Rise



Source: Wall Street Journal

The economy has been in a secular expansion for nearly 10 years and economists are becoming increasingly worried that the party may soon be over. As history has proved time and again, expansions don't last forever. There are many factors contributing to economists' concerns, as the economy faces a handful of legitimate headwinds. With lingering U.S./China trade frictions, the threat from the Fed potentially hiking rates above what the economy can sustain, and some leading economic indicators hovering at cautionary levels, investors are watching economic data closely. That said, even though the risk of a recession has risen significantly over the last year, there is still just a 25% chance of a recession in the next 12 months, according to surveyed economists.

Impact of Government Shutdown



Source: Statista

Most government shutdowns have proven to be rather cursory events, but the current stoppage has dragged on for long enough that it's begun to ripple through the markets as a number of federal departments remain closed. Although the actual economic impact of the shutdown is rather small to-date, more damage is done with each passing day. There is growing political pressure to resolve the dispute as a prolonged shutdown would increase uncertainty, encouraging both consumers and businesses to defer spending decisions until there is more clarity on the situation. At the same time, the Fed's access to new data points is more limited than usual, as both the Bureau of Economic Analysis (which releases GDP data) and the Census Bureau (housing and retail sales data) are closed.

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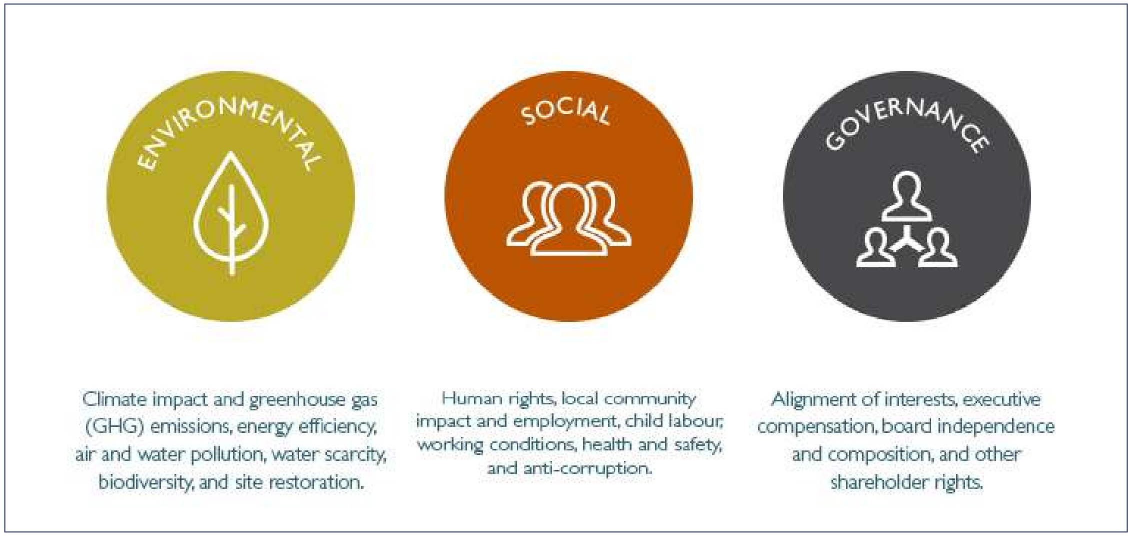
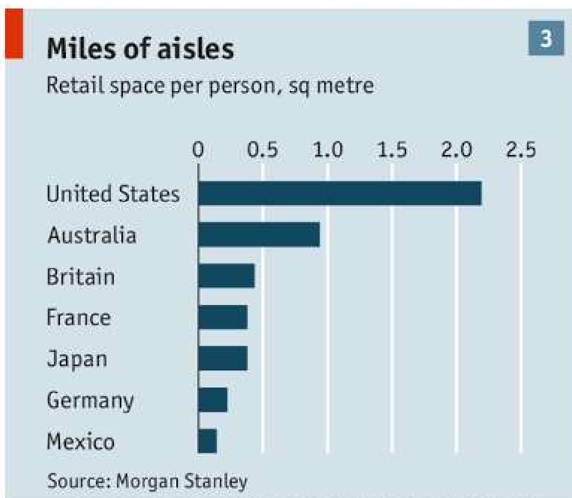
ESG



Source: Furnaces Blog

The U.S. Remains Over-Stored



Source: The Economist

ESG (Environmental, Social, and Governance) investing is becoming increasingly popular amongst socially conscious investors considering the ethical impact and sustainable practices of their investments. In essence, ESG investors are looking for investments that are not only solid businesses, but ones doing good for the world, with some examples being companies dedicated to controlling their carbon footprint, giving back to communities, and having ethically-minded management. This investment strategy has gained quite a bit of momentum over the past decade as a groundswell of client demand has encouraged money managers to develop relevant products – Professionally managed money with ESG incorporation has grown from $2 trillion in 2012 to just under $10 trillion in 2018, according to the US SIF Foundation. It is safe to assume that ESG investing should continue its secular uptrend in the years to come as awareness grows.

A cross-country comparison of retail space per capita reveals that the U.S. is dramatically over-stored, and it will likely take decades for a rationalization of retail space to play out. The roots of this phenomenon date back more than 30 years to the boom of big-box stores in suburban America, but today many traditional bricks-and-mortar retailers are struggling to effectively manage their existing store footprints as truckloads of business continue to shift towards the e-commerce channel. While the outsized growth in online shopping has long-since been recognized as a sea-change in the retail industry, many legacy retailers have only begrudgingly embraced e-commerce, as web-based sales are generally less profitable compared to in-store purchases. This catch-22 situation suggests that the industry is unlikely to course-correct anytime soon.

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