

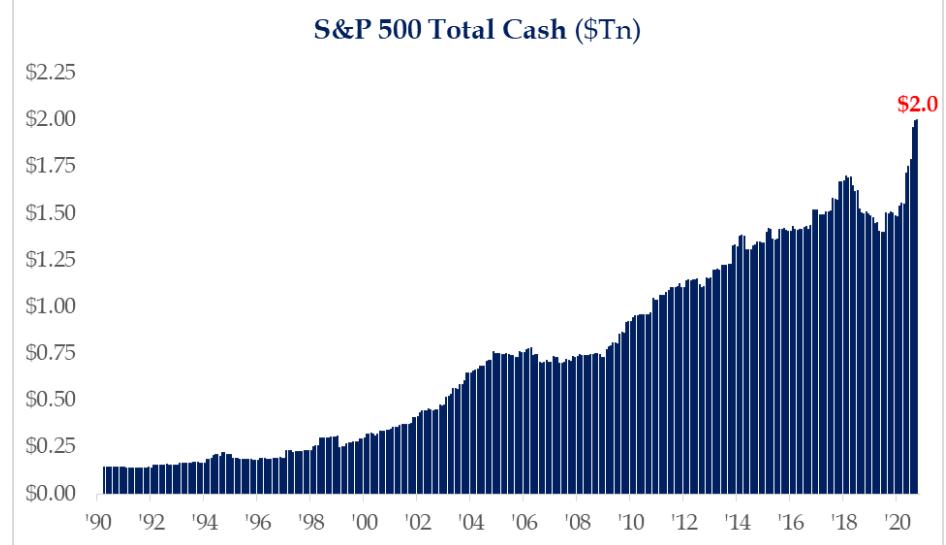
Strategas Daily Macro Brief

Prepared by Strategas Securities, a Baird Company

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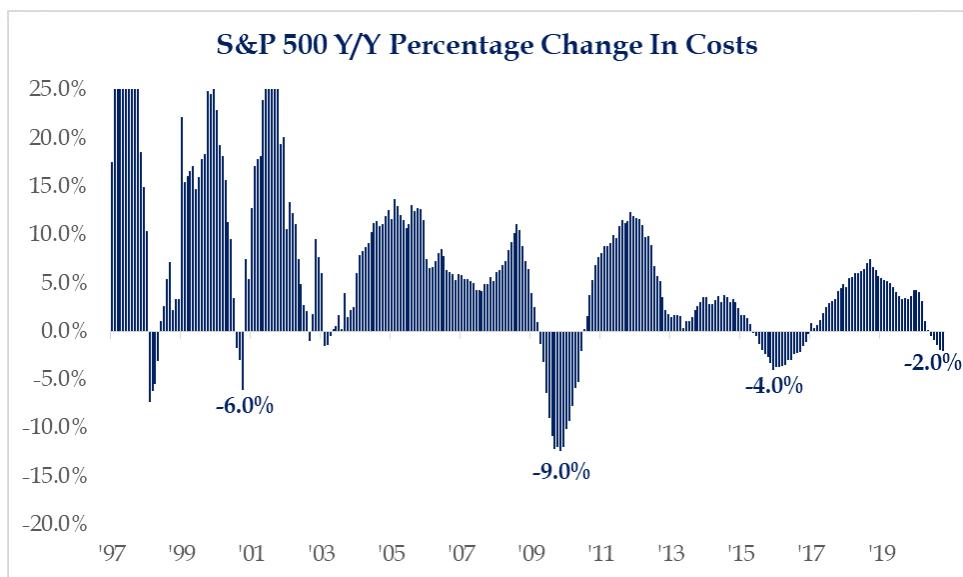
DEBT REPAYMENT MAY BE MORE WIDESPREAD IN 2021

Anecdotal evidence from listening to earnings calls during the past reporting season suggests that elevated levels of cash on balance sheets will be used to maintain or grow dividends and pay down debt next year. Share repurchases were frequently mentioned as well but typically only after the previous two uses were fulfilled.



PANDEMIC RELATED EXPENSES MASKS COST-CUTTING MEASURES

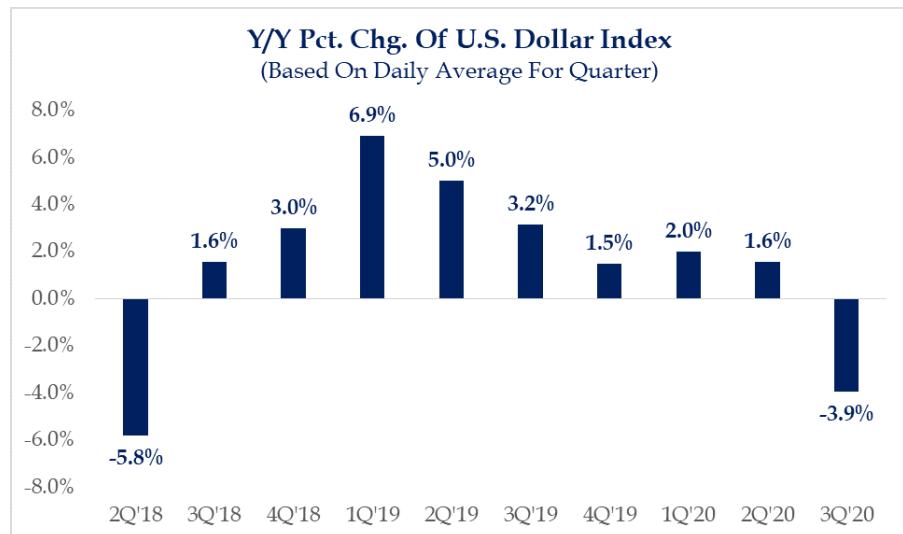
Compared to prior recessions, the year-over-year decline in costs was less significant. Companies are not yet fully benefitting from cost-cutting measures, as a recurring theme on many conference calls is that companies incurred substantial expenses related to maintaining a safe workplace due to COVID. Analysts were quick to ask when they can expect these costs to roll off, and management teams were often uncertain.



Please see the Appendix on page 3 for important disclosures.

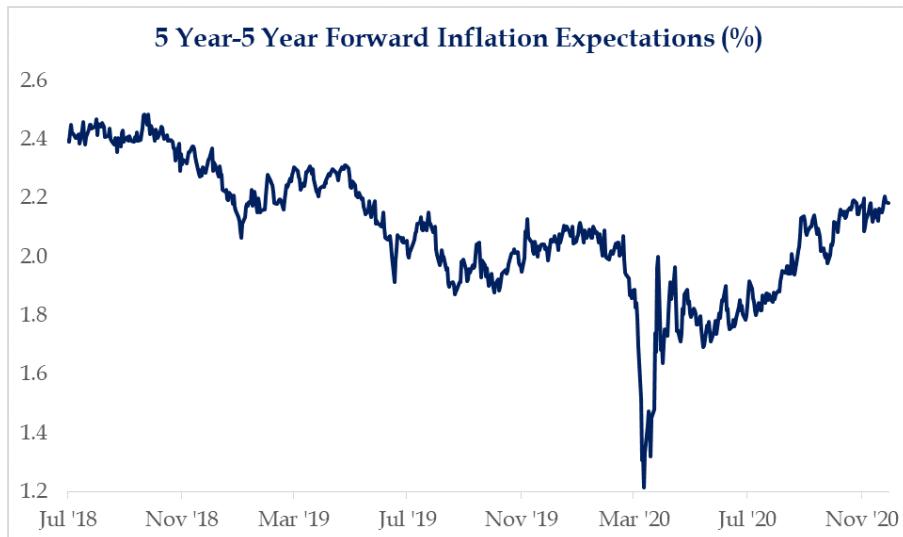
WEAKER DOLLAR BENEFITS NOT-BROAD BASED

As we suspected, sales and earnings benefits are more dependent on currency pairs than the overall weakness that was seen in the U.S. Dollar Index during the third quarter. Perhaps the good news though is that companies boasted about both revenue and profit growth in constant currency terms.



NASCENT SIGNS OF INFLATION

Headline inflation indexes are likely not going to show any meaningful pickup in inflation since shelter is such a large component. Still, management discussed several areas where they see higher prices. Increased freight costs, higher lumber costs, and some food categories were the most prevalent on the calls. It is also worth noting that five year-five year forward inflation expectations are at the highest levels since early to mid-2019.



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