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The Economy: Growth Slipping in November

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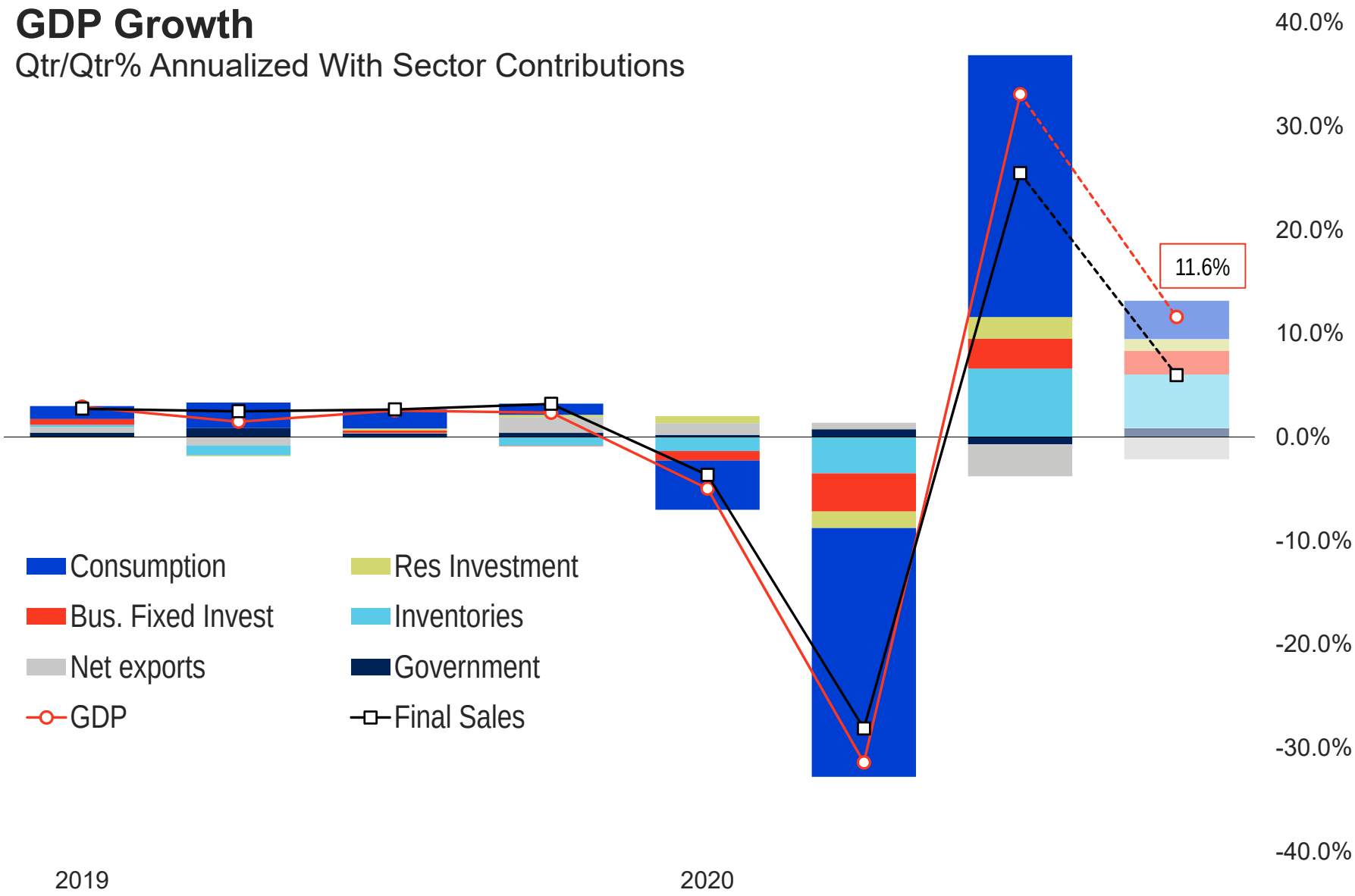
- Economic and job growth is moderating
- Big businesses optimistic, small businesses worried
- Big test for all is ability to weather the next 4-5 months
- Meanwhile, millions still unemployed, some receiving sub-poverty unemployment payouts

GDP roaring back



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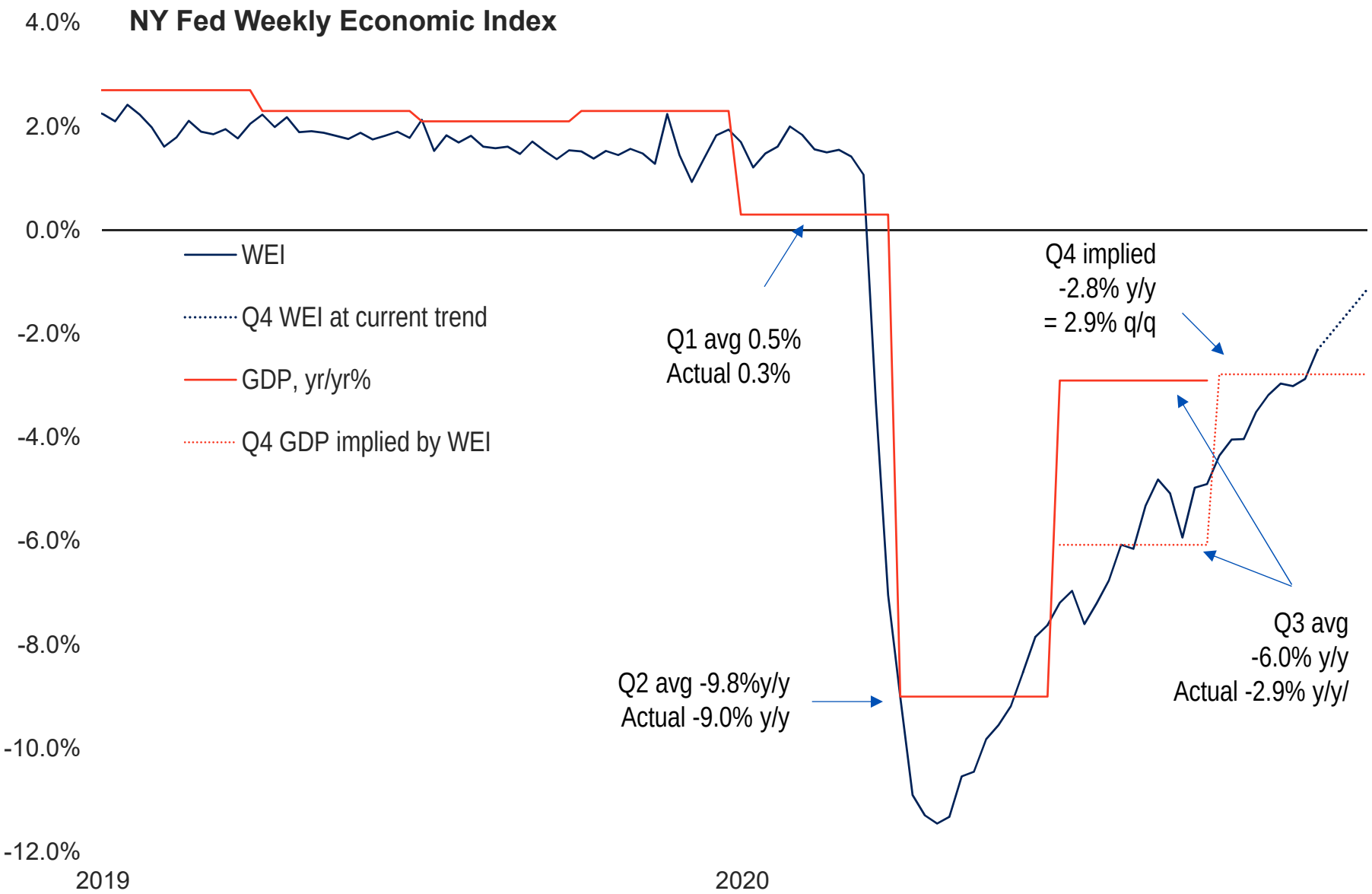
Source: Bureau of Economic Analysis and FHN Financial

WEI reflects solid sales, falling claims



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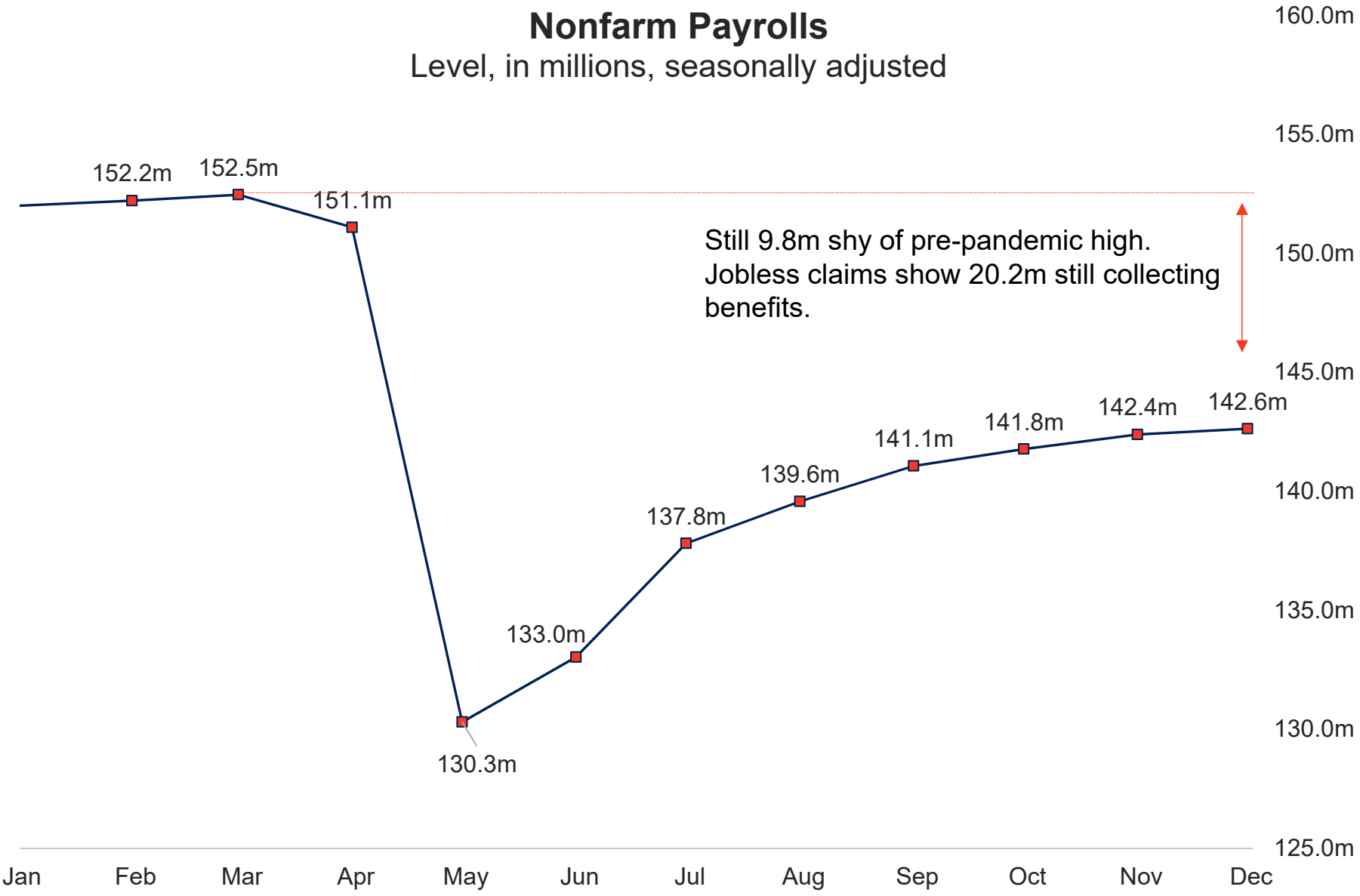
Source: New York Federal Reserve Bank, Bureau of Economic Analysis

Nonfarm payrolls plateauing



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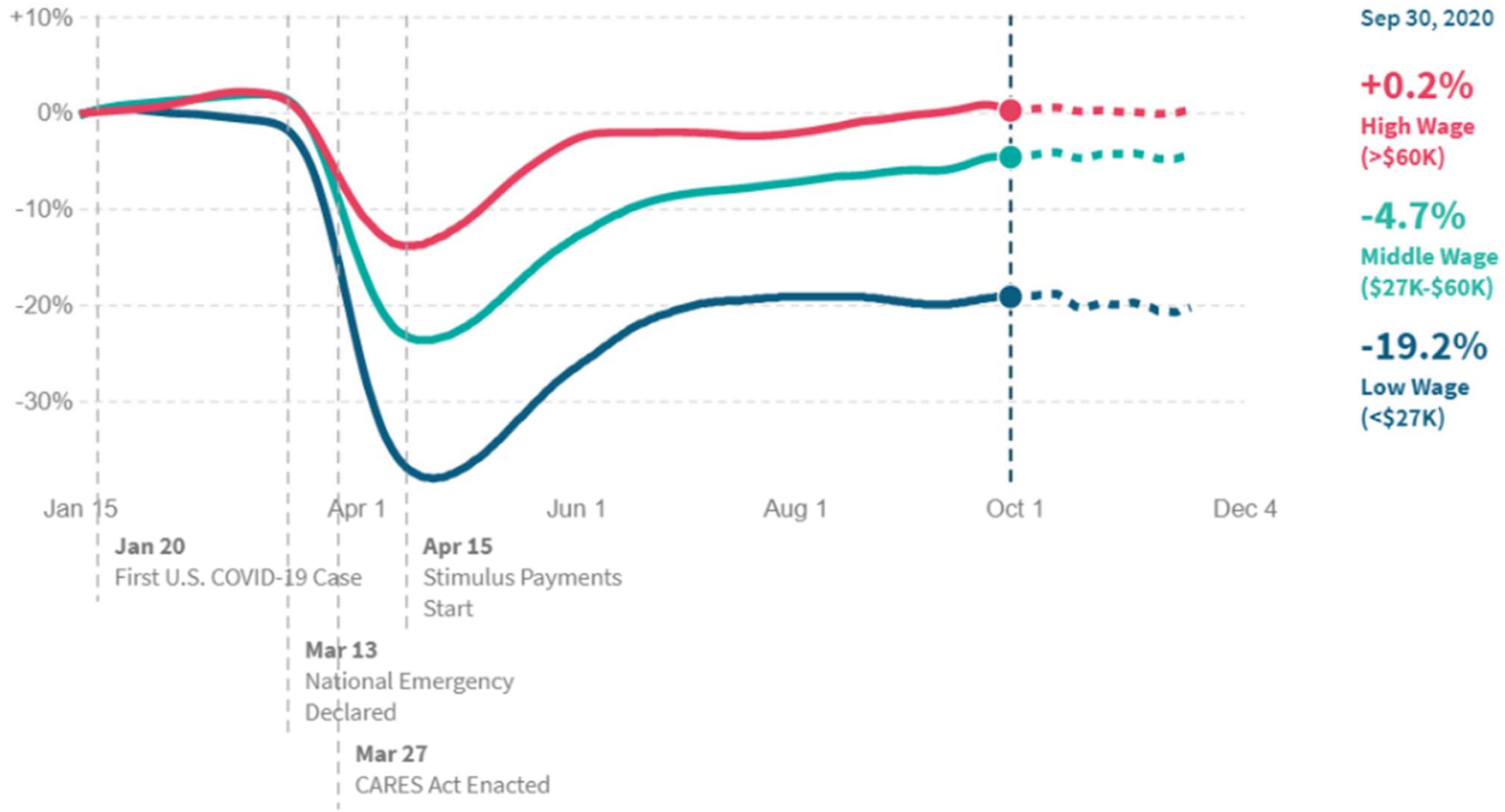
Source: Bureau of Labor Statistics

Lowest paid left behind

Percent Change in Employment*

In **the United States**, as of **September 30 2020**, employment rates among workers in the bottom wage quartile **decreased** by **19.2%** compared to January 2020 (not seasonally adjusted).



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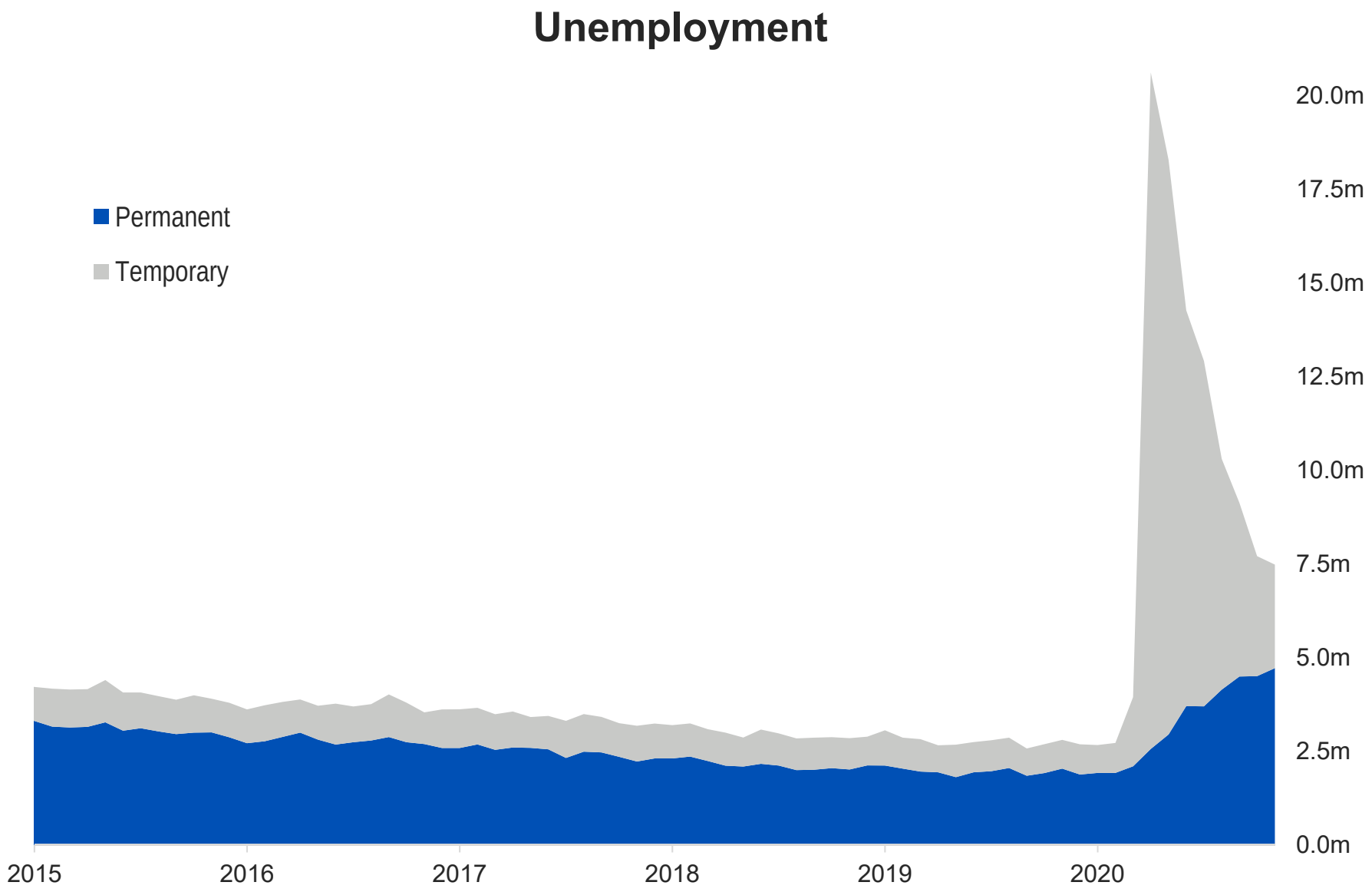
Source: Opportunity Insights Economic Tracker www.tracktherecovery.org

Unemployment still elevated



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Source: Bureau of Labor Statistics

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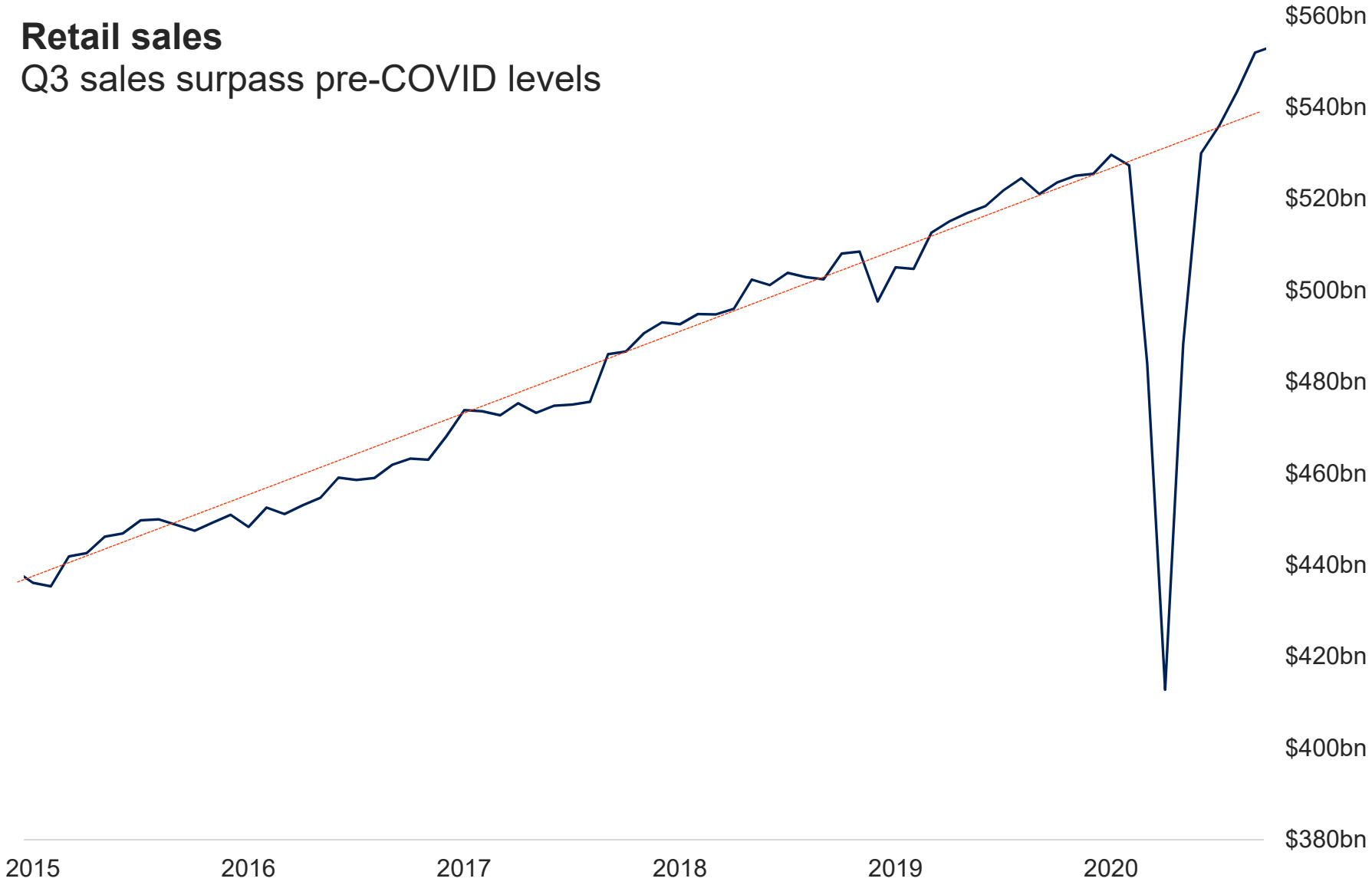
GDP breaks down into:

- **Consumption:** Growing at a 5.5% rate, likely to be stronger once holiday sales are counted.
- **Business fixed investment:** Equipment near 30%, structures still falling (but always lag)
- **Inventory investment:** Huge after 6 quarters of declines
- **Trade:** Exports 11%; imports near 20%
- **Residential investment:** 32%
- **Government spending:** 5%

Retail spending still strong

Retail sales
Q3 sales surpass pre-COVID levels



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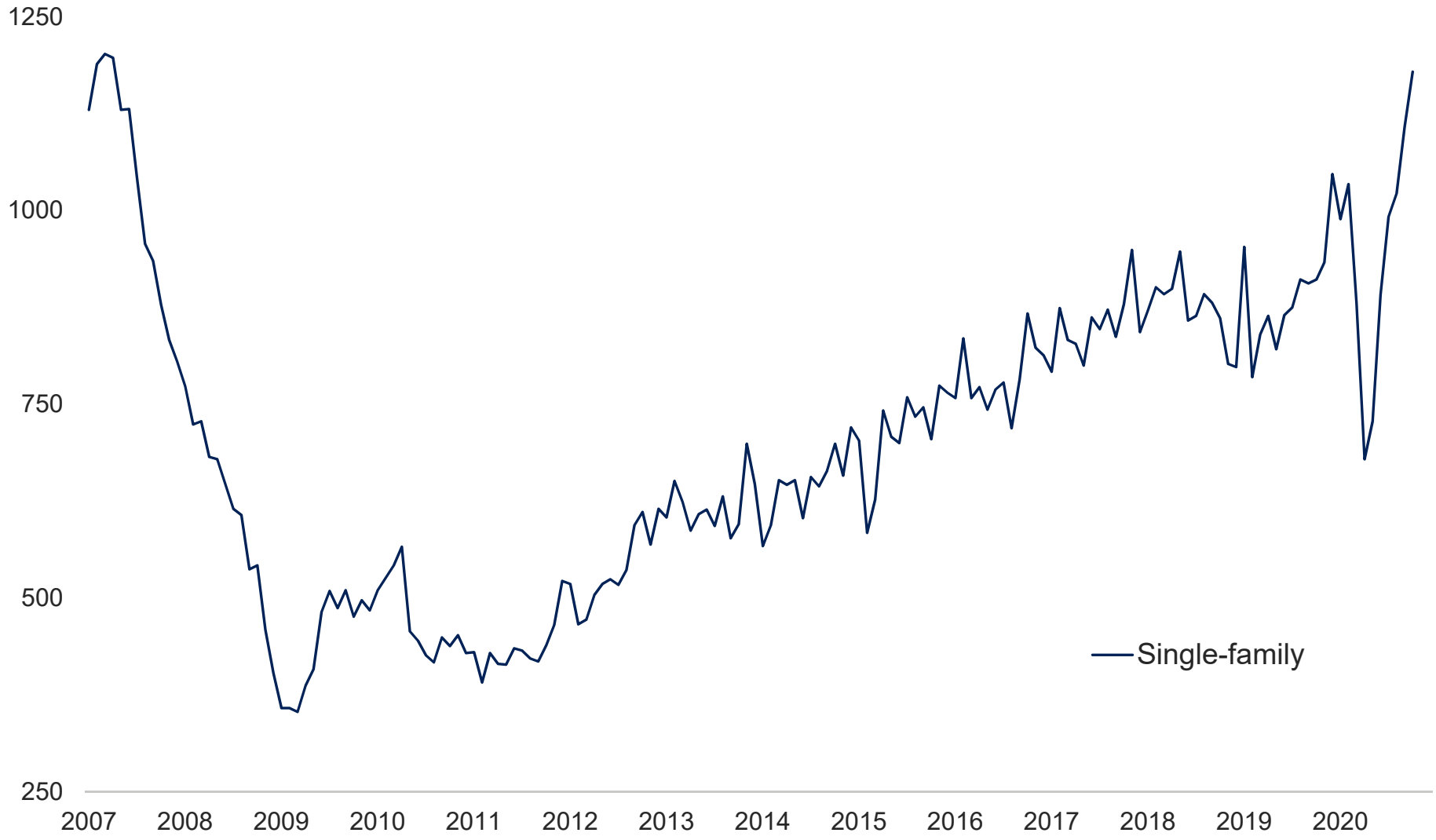
Source: Bureau of the Census

Housing (single-fam) is booming



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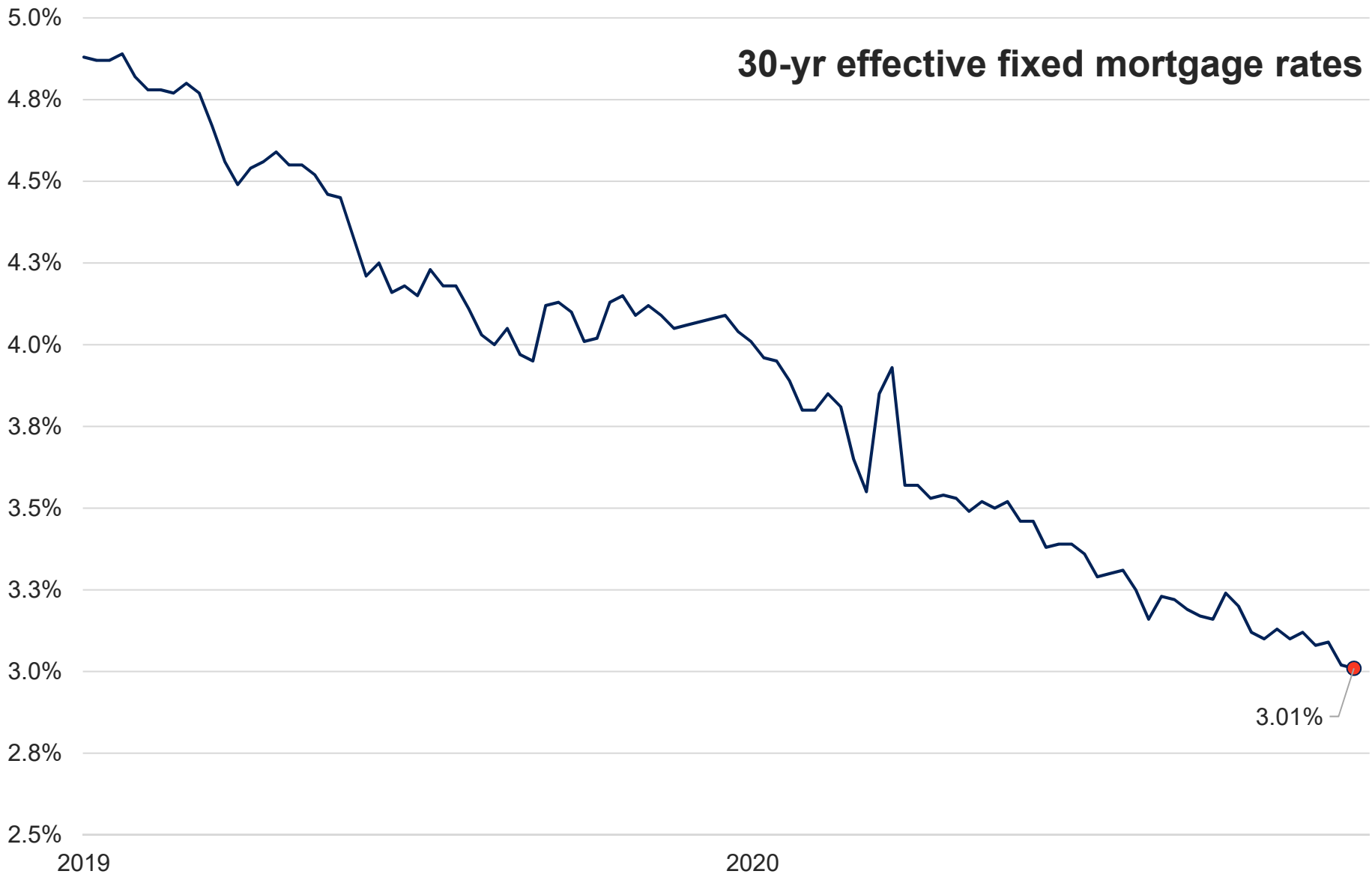
Source: Census Bureau, HUD, Haver Analytics

Partly because rates are so low



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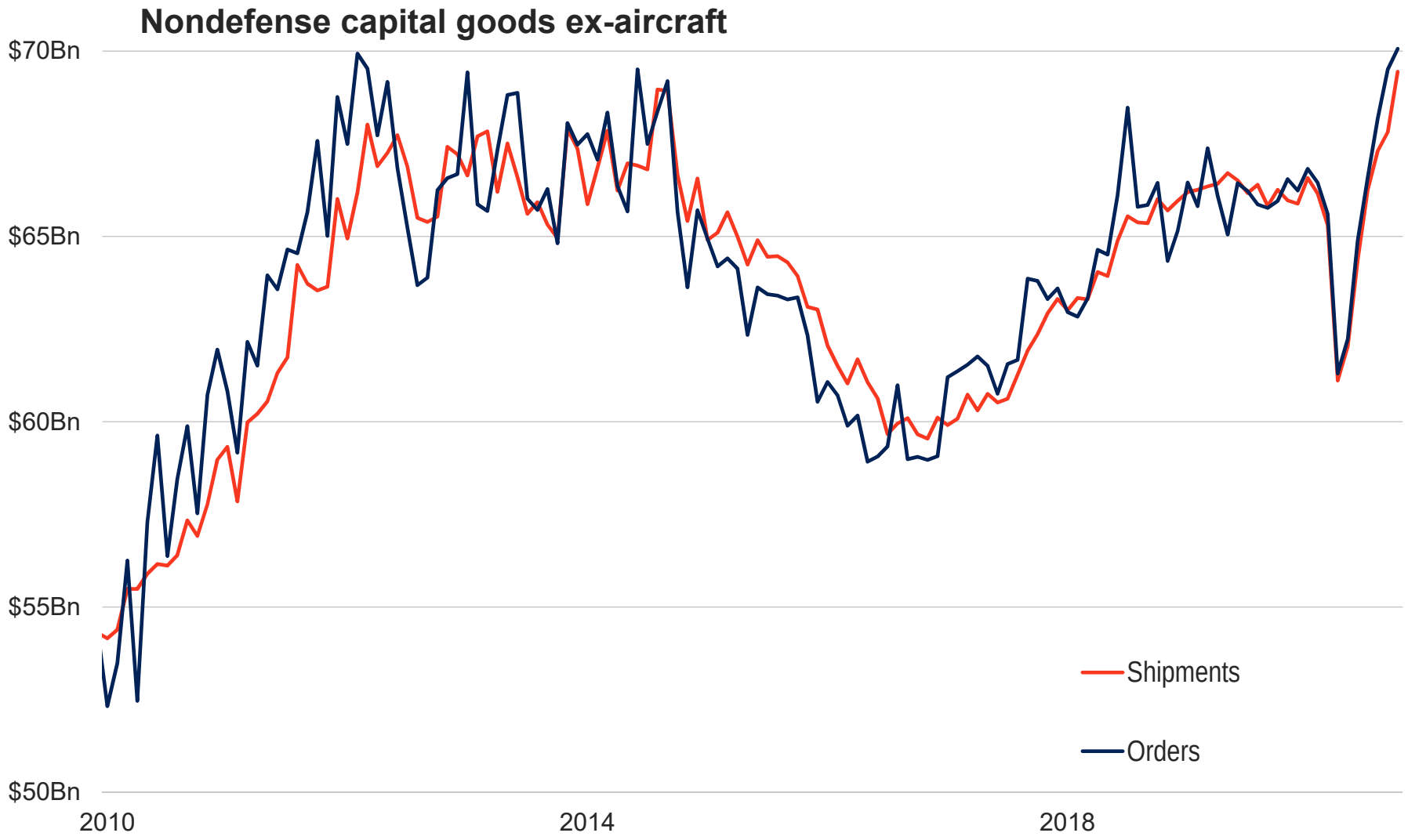
Source: Mortgage Bankers' Association

Businesses are spending, too



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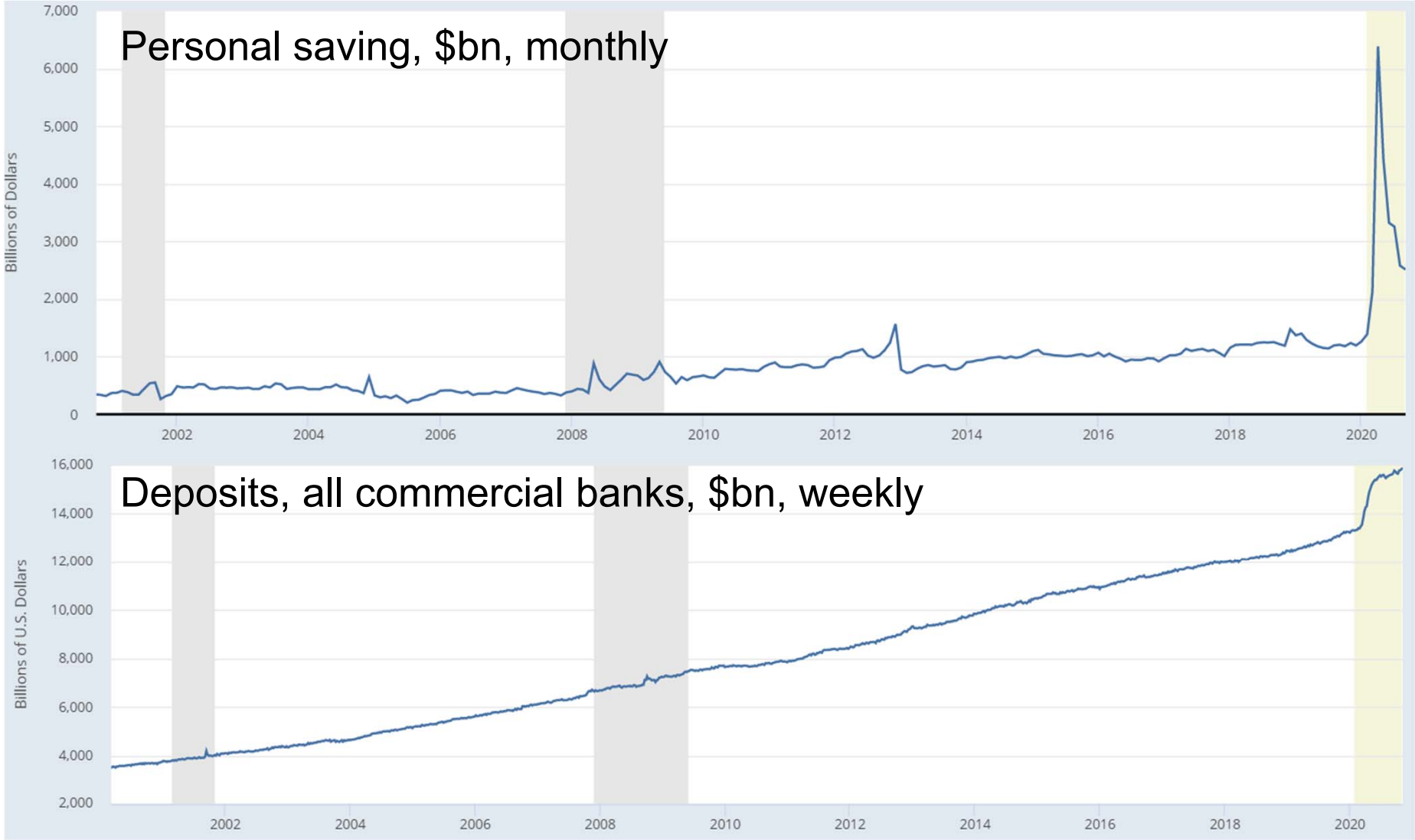
Source: Census Bureau

Savings still rising



Source: Bureau of Economic Analysis & St. Louis Fed

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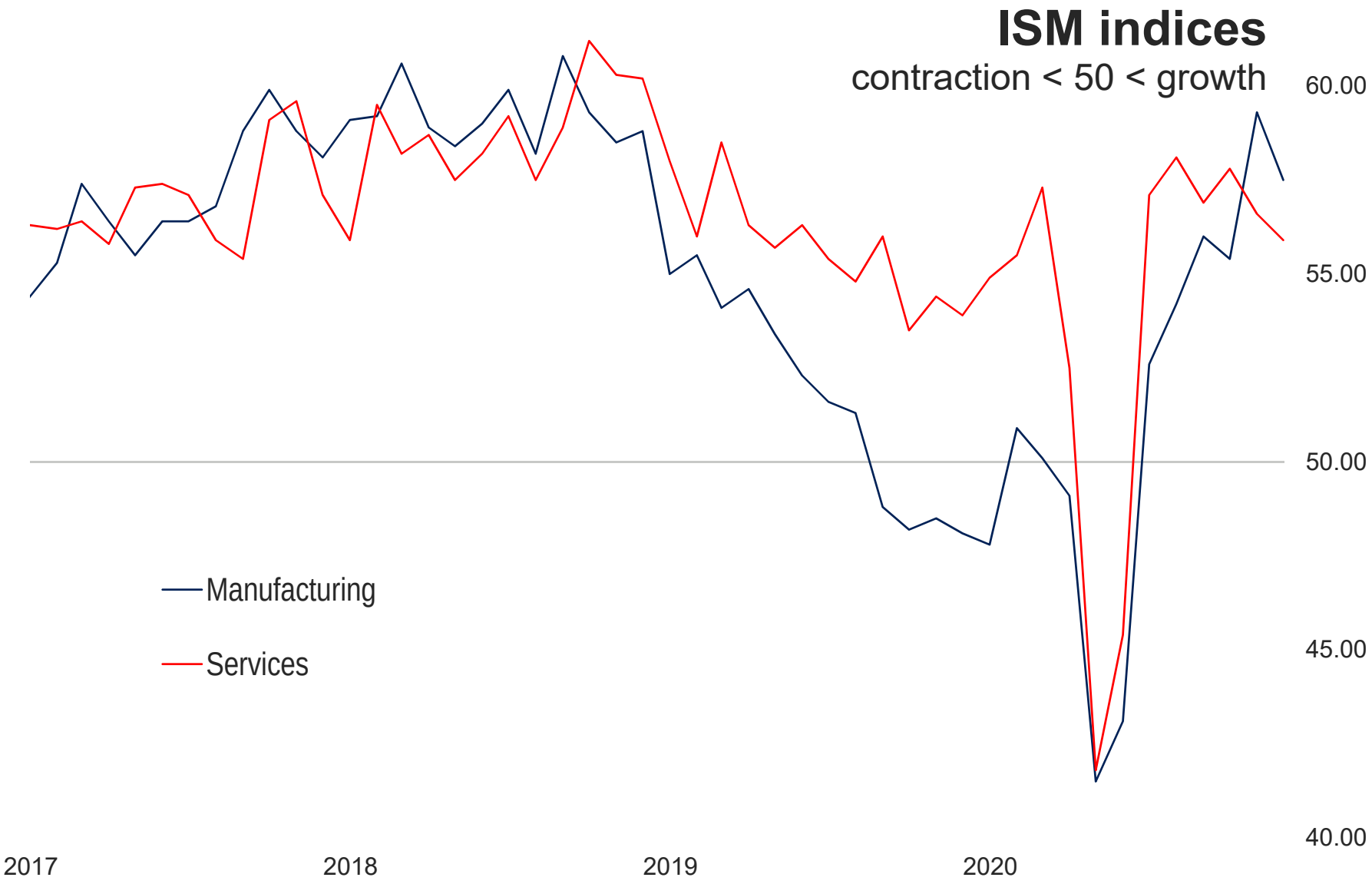
Lockdowns returning in overrun areas:

- **California:** "Act now [or] our hospitals will be overrun."
- **Texas:** Non-COVID patients denied ICUs in some cities.
- **Nebraska: "**Admitting sickest of the sick."
- **Alabama:** "Tidal wave of cases could soon overrun hospitals."
- **Tennessee:** Doctors "depressed, disheartened, tired to the bone."
- **Idaho:** Close to needing to ration care.
- **Kansas:** Doctors take up to 8 hrs to find beds for patients

LA is the poster child, but no politician wants to lockdown unless there is a need to lockdown.

ISMs solid, but services falling



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Source: Institute for Supply Management

ISM employment still weak

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Source: Institute for Supply Management

Economic outlook

- The economy is most vulnerable in the next four months.
- Vaccine timeline is key:
  - US needs more than 600m doses (2/person)
  - Pfizer approval first, will deliver just 6.4m doses on Dec 15
  - Supply is a problem, especially with just two vaccines approved in Dec
  - It takes 28 days from the first shot to achieve immunity
  - Herd immunity most likely in July at the earliest
- Oct and Nov data suggest lockdowns, not the disease, hurt the economy. Next few months, then, are high risk for growth as more widespread lockdowns are likely. Question is: How widespread?
- **If COVID is in the rearview next summer, barring significant policy missteps, the economy should resume pre-pandemic growth trend.**

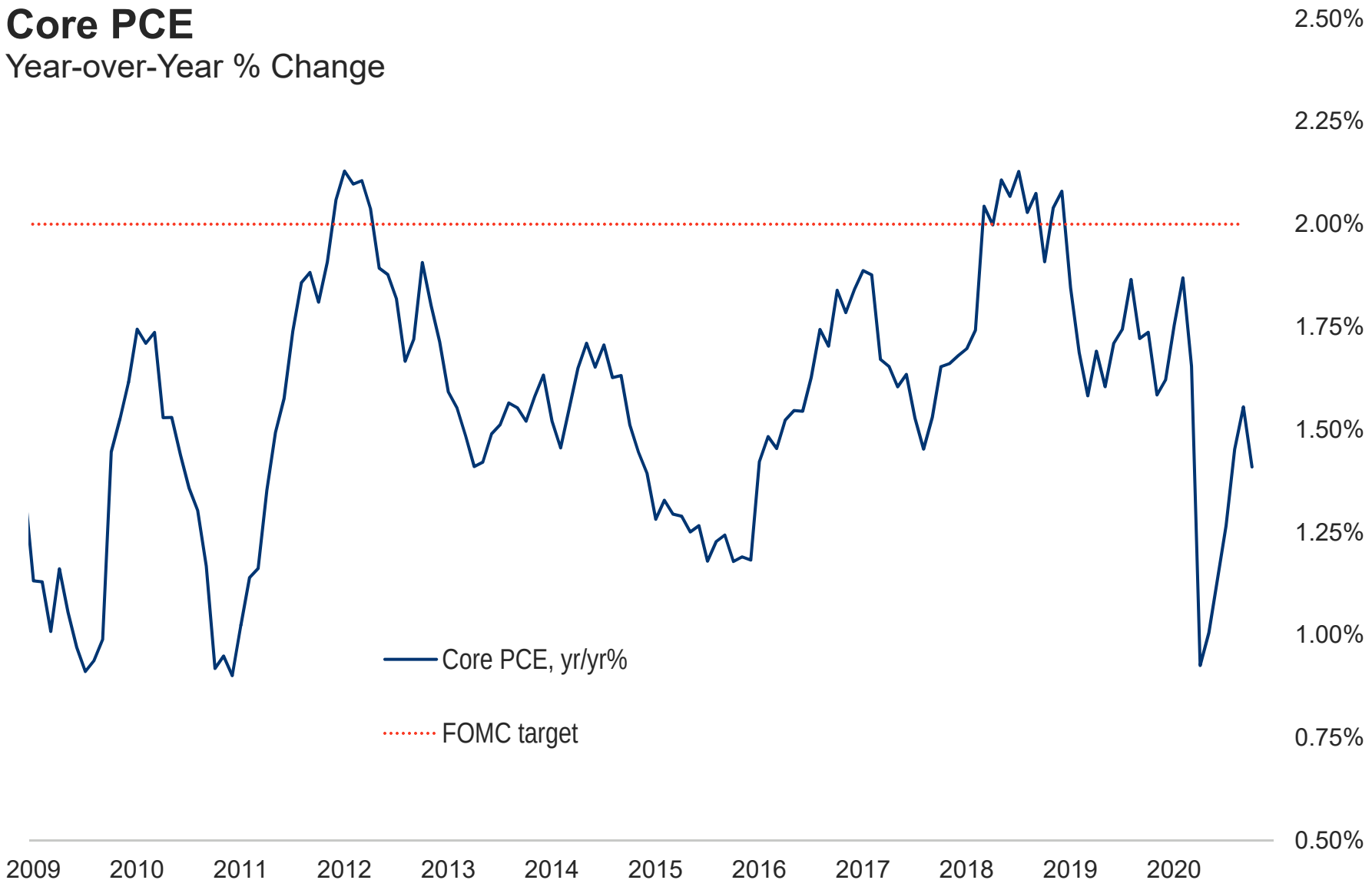
Fiscal outlook

- Georgia runoffs will determine reach of Biden's agenda.
- The economic team:
  - Yellen the first woman yes, but maybe more importantly the first economist with CEA and Fed leadership experience to run Treasury. She will have "ins" at the WH and the Fed. Serious cred with wonks, but not Congress.
  - Neera Tanden at OMB helped draft the Affordable Care Act and worked on both Hilary Clinton campaigns. Good policy mind, but unlikely to be confirmed after 4-yr Twitter flame-war with Republican senators.
  - Cecilia Rouse, Jared Berstein, and Heather Boushey are all solid picks for the CEA.
- For now, agenda is seriously light:
  - 100-day (suggested) mask mandate
  - Strong desire for a big stimulus
- Longer term:
  - Yellen is prepping for response to possible renewed recession

Monetary outlook

- Fed minutes included long QE conversation
  - Some say that means more QE in December, but listen to what they said:
    - Pros: Can stop rise in L-T rates
    - Cons: Balance sheet is already big; more mortgage purchases would be disruptive
  - Why use it now? Mortgage rate is 3%! This is a reminder that QE is most powerful tool in the box, but also that it doesn’t make much sense to deploy now.

Should we worry about inflation?



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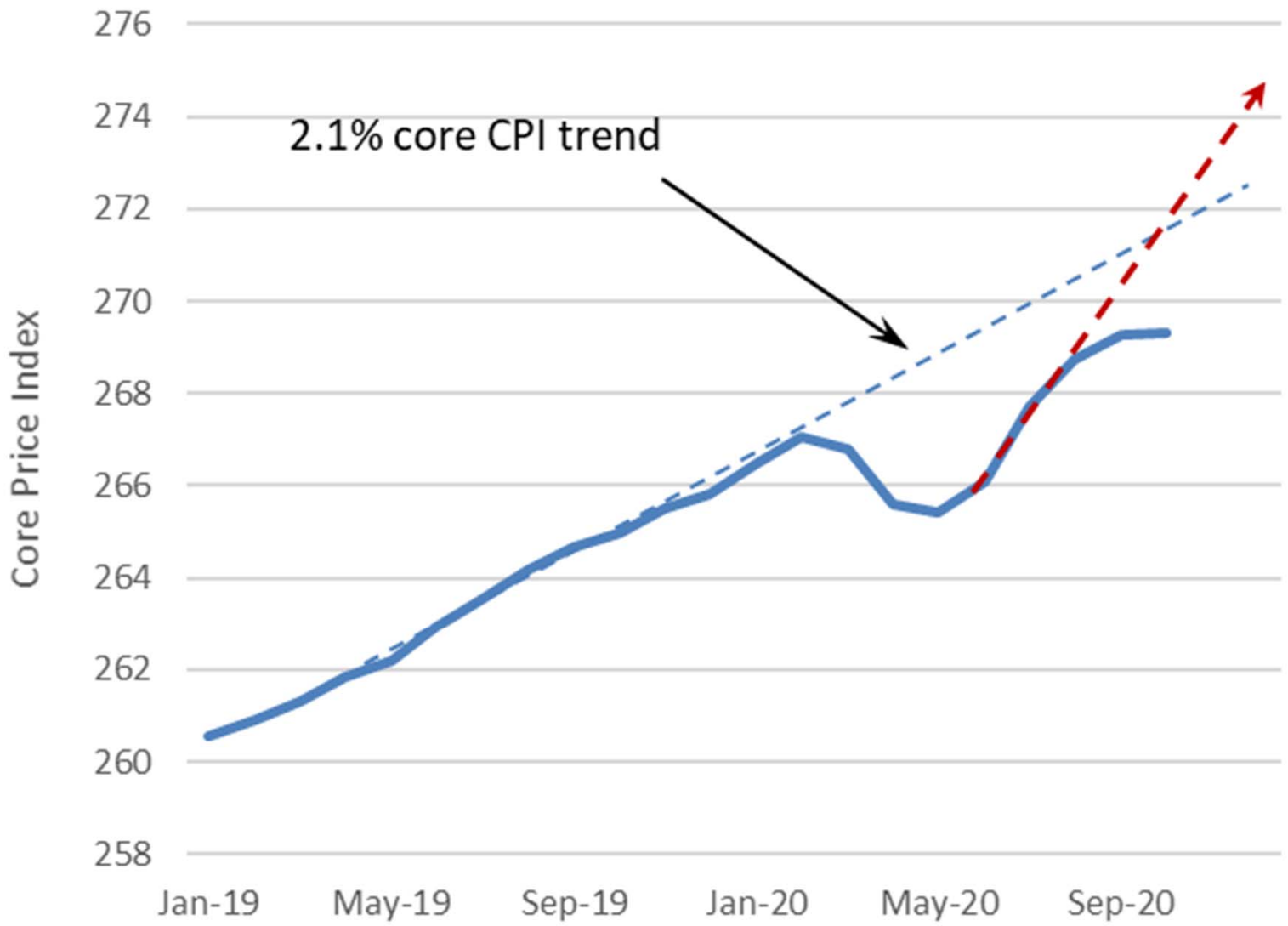
Source: Bureau of Economic Analysis

Interest rate outlook

- Markets priced today for faster inflation and less Fed accommodation.
- The 2s/5s UST yield curve is steep relative to most likely chain of events.
- Treasury supply likely moving out the curve with less pressure on shorter maturity notes. Corporate borrowers have fewer short-term financing needs next year.
- Accumulated liquidity will last well into 2021 or 2022 with cash plentiful and money market rates lows

Traders trend catch-up inflation



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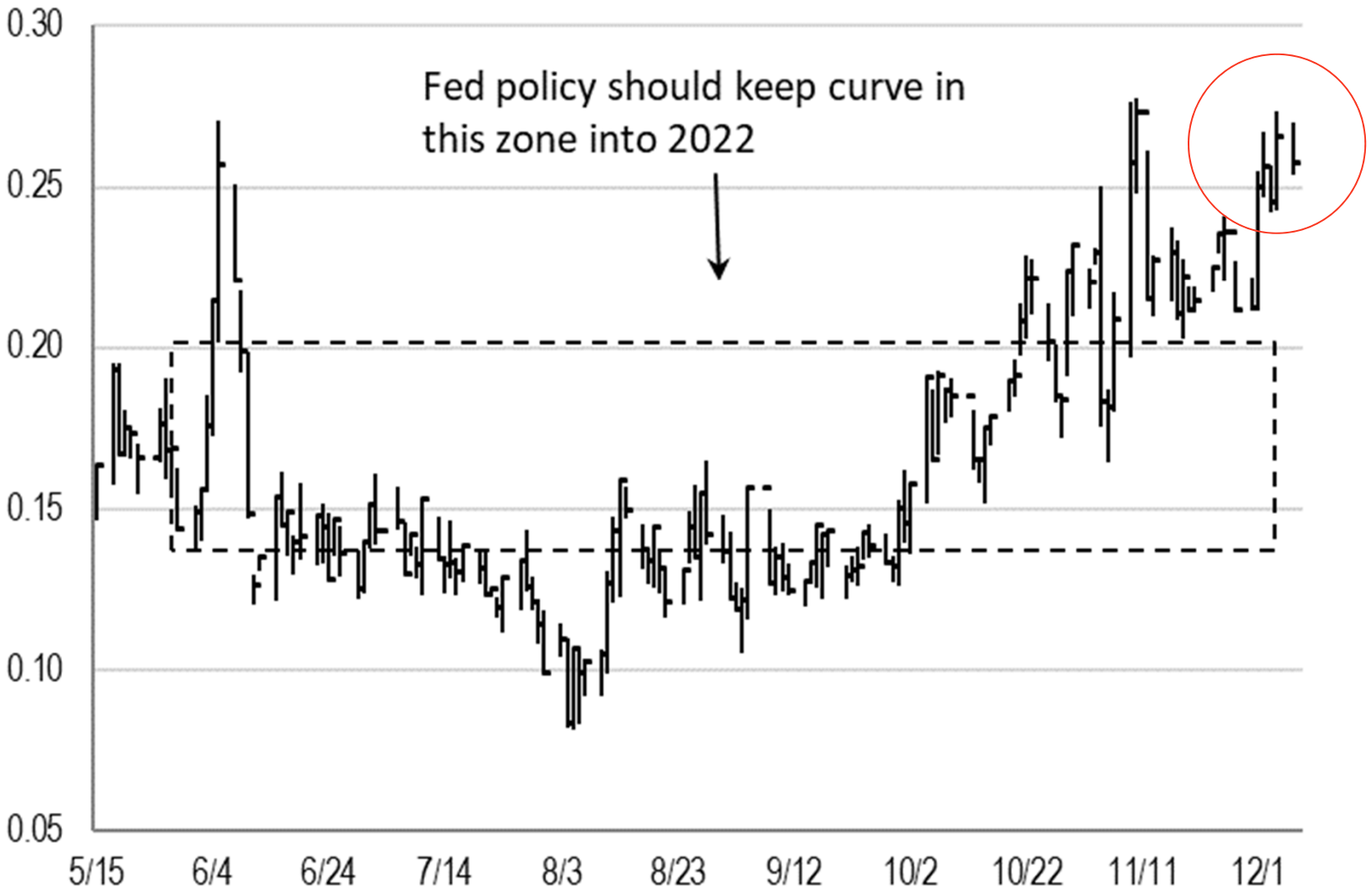
Primary reason why 2s/5s steep



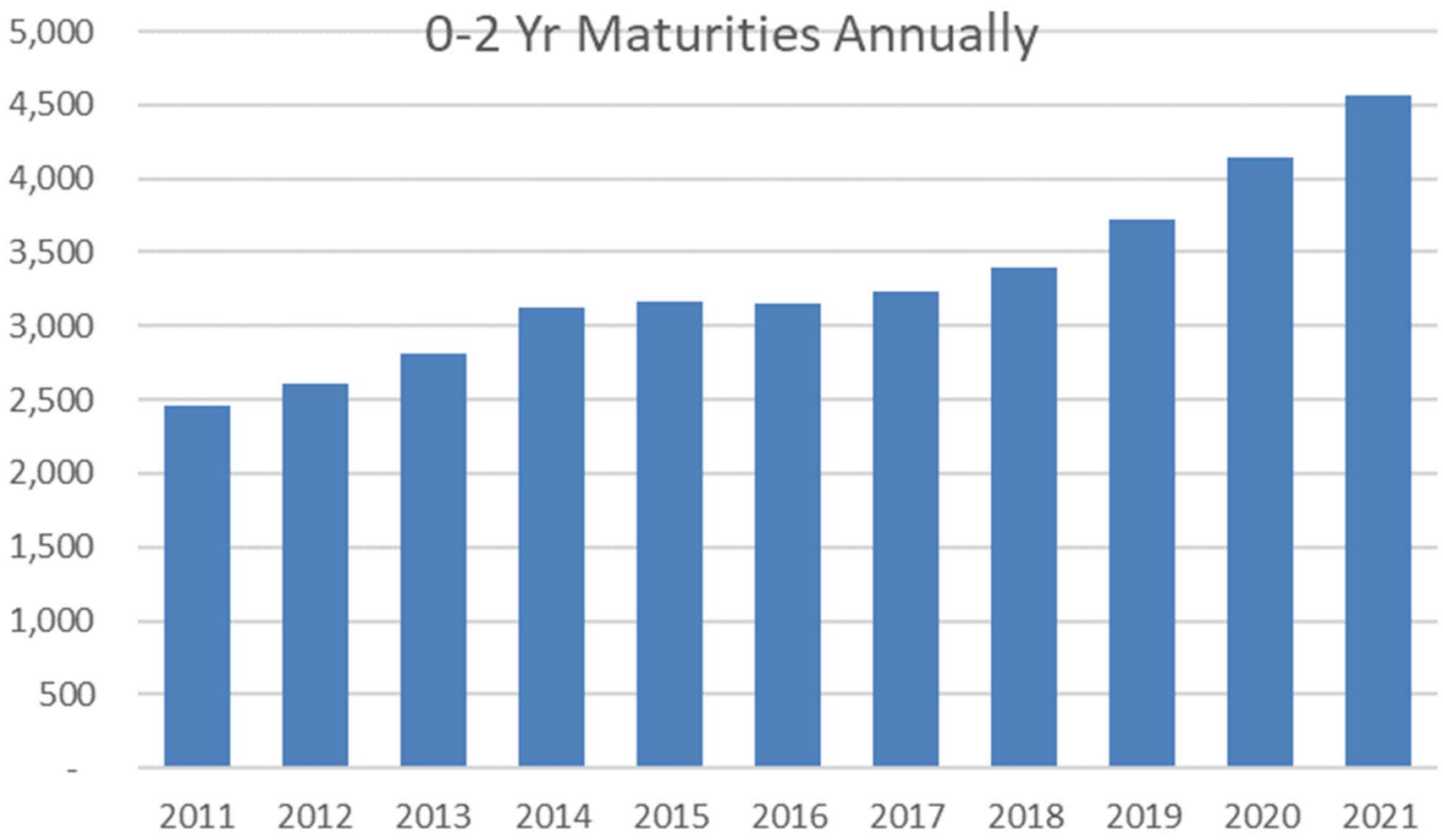
5-Yr UST implies Fed moves in '22

	Timing of rate increases from .25% Upper Bound				
5-Yr UST	.50	0.75	1.00	1.25	1.50
0.350	Jun 22	Nov 23	Aug 25		
0.400	Apr 22	Nov 23	Mar 25		
0.450	Mar 22	Jun 23	Dec 24		
0.500	Mar 22	Dec 22	Nov 23	June 25	
0.550	Mar 22	Dec 22	Sep 23	Mar 25	Sept 25

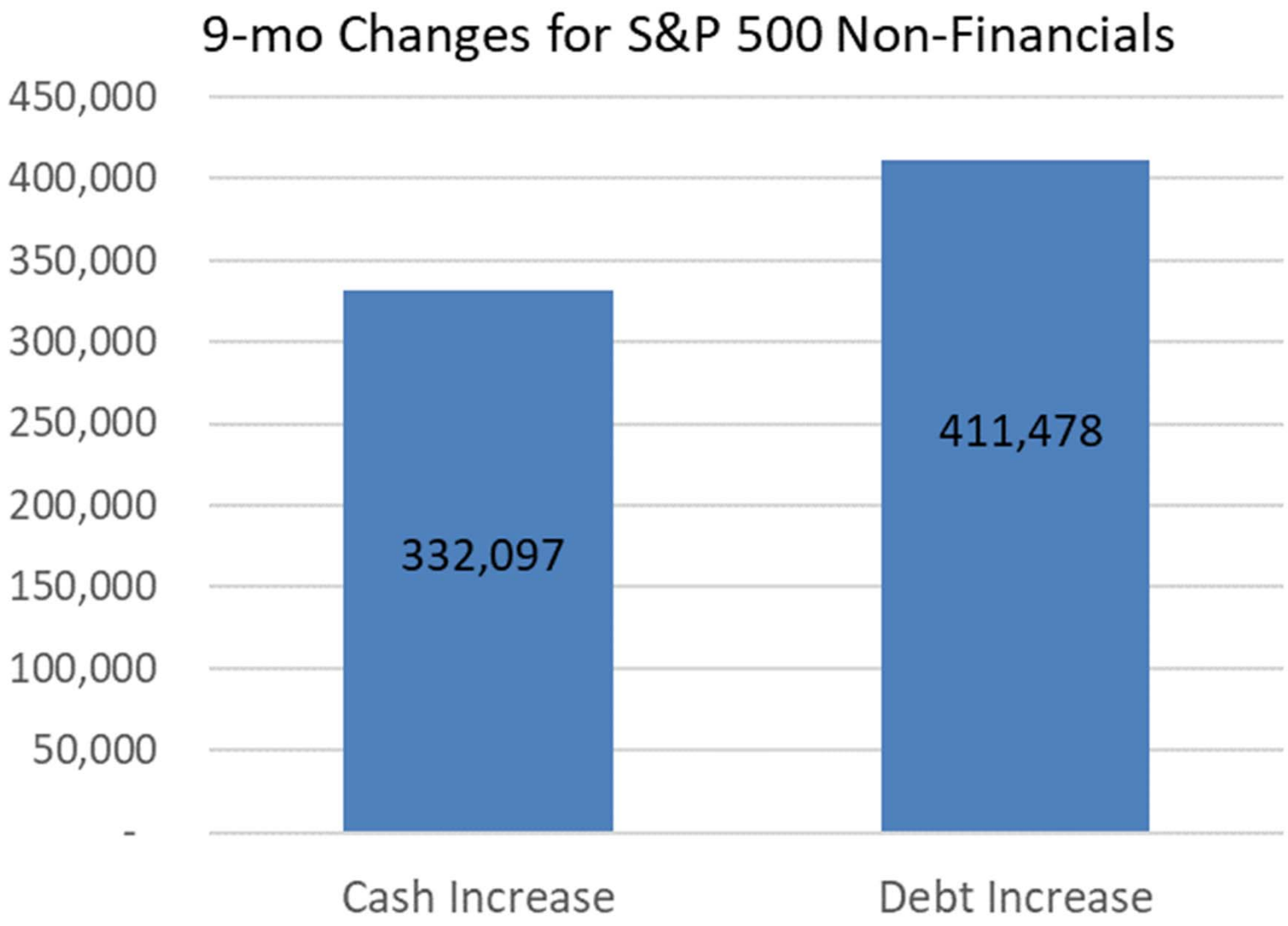
Source: FHN Financial

Suggesting Fed is happy in late '21

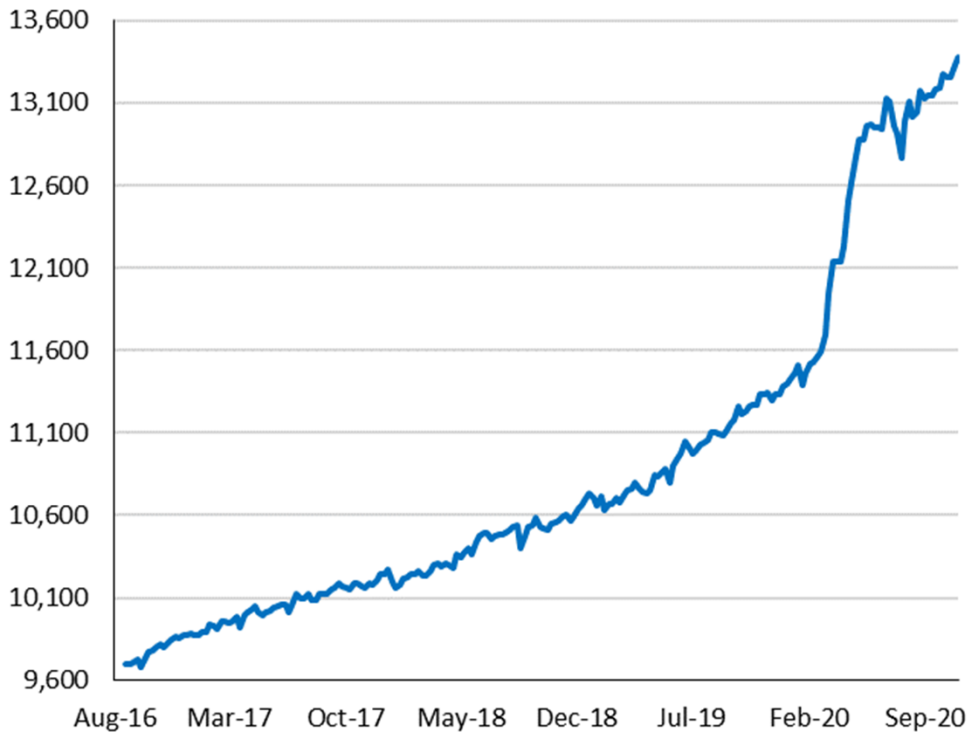
Treasury at limit on 2-3 yr auctions

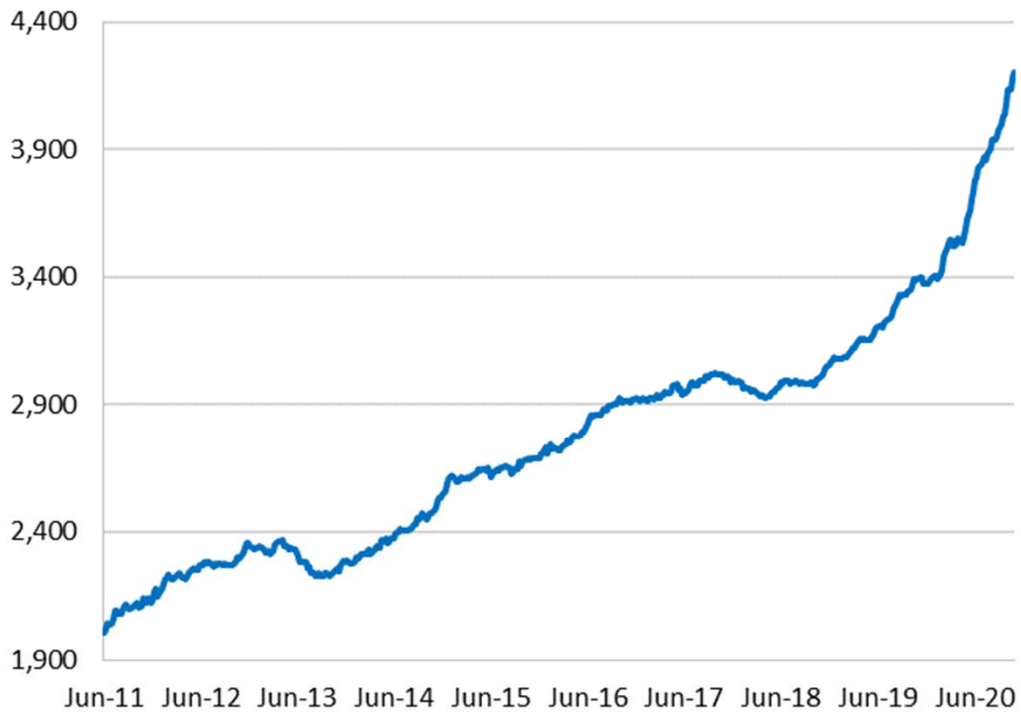


Corporations pre-borrowed



Savings and Bank Portfolios Higher





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Summary

- For first nine months of the year, 2s stay < 25bp.
- Based on widely accepted positive trends, upside risk on 5-yr UST is < 60bp.
- High-grade spreads remain calm on reduced volatility, reduced supply outside Treasuries, and strong demand.
- Next year offers a better than usual opportunities to ride down a steep yield curve.

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