

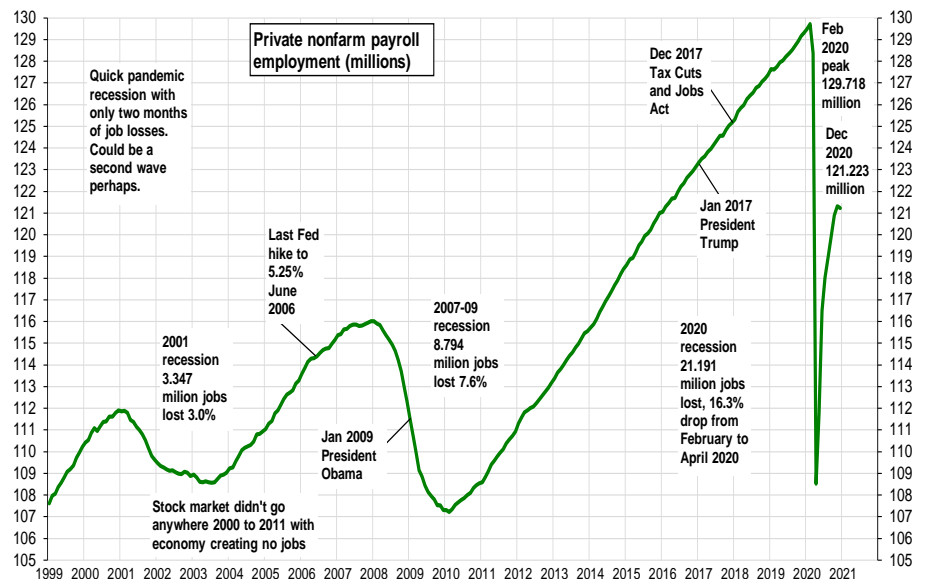
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FEWER JOBS TODAY, MANY MORE TOMORROW AS NEW BLUE WAVE OF FISCAL STIMULUS ON THE WAY

It may be old news for the stock market, but for Main Street America the recession isn't over yet, and the worry and desperation is growing worse by the day. The economic recovery hit a wall and now instead of rehiring, companies have resumed firing. Recession is back if you are unemployed and the new job losses signal more firings and layoffs are still to come. It is almost unprecedented to have jobs turn back down after



a recession, in this case, after rising for seven consecutive months from the nadir point in April. It has never been more true that the path of the economy depends on the course of the virus, and right now, new Covid outbreaks across the nation are threatening to bring the economy down with it.

Payroll jobs fell 140 thousand in December after rising 336 thousand in November. The number would have been weaker without seasonal hires of 121K at retail stores, and couriers and messengers hired 37K for the holidays. Bars and restaurants

<u>Monthly changes (000s)</u>	Dec	Nov	Oct	Sep	Aug
Payroll employment	-140	336	654	711	1493
Private jobs	-95	417	925	930	1028
Leisure/Hospitality jobs	-498	75	265	413	138
Unemployment rate %	6.7	6.7	6.9	7.8	8.4
Not in labor force (mln)	100.663	100.548	100.207	100.664	99.740
Average hourly earnings	\$29.81	\$29.58	\$29.49	\$29.47	\$29.45
MTM % Chg	0.8	0.3	0.1	0.1	0.3
YOY % Chg	5.1	4.4	4.4	4.7	4.6

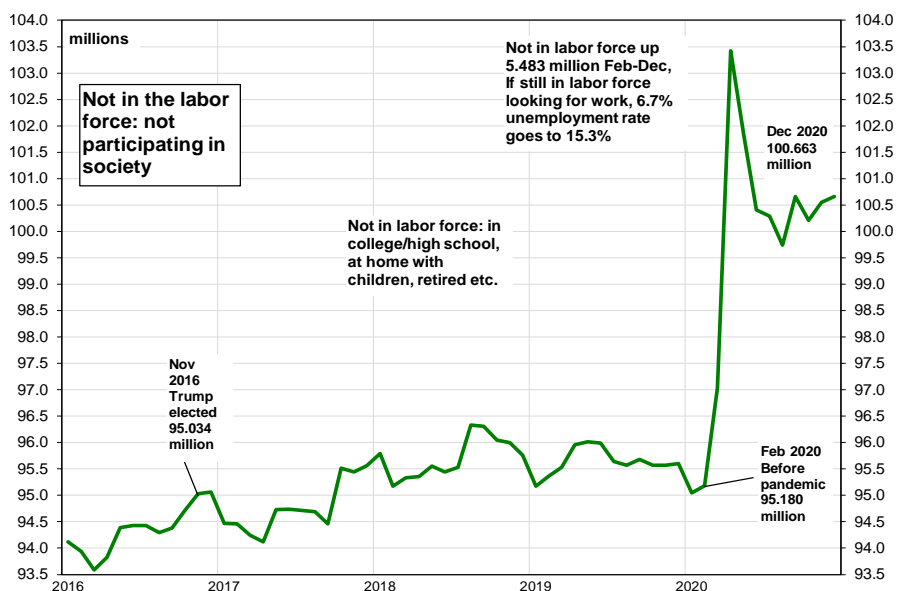
have closed back down and fired 372K workers this month. Private payroll jobs are down 8.5 million

since February 2020 before the pandemic, and leisure and hospitality workers, including bars/restaurants, amusement parks, movie theaters, sporting events and motels/hotels are 46% of those lost jobs. A \$600 handout from Uncle Sam doesn't help this sector of the economy which remains closed. The unemployment rate was unchanged at 6.7% with 10.736 million unemployed, but keep in mind that over 5 million have dropped out of the labor force and have stopped looking because there is no work out there, so the true unemployment rate is 15.3%.

To conclude, new Covid cases are everywhere so it is no surprise that many companies have had to release staff as they are no longer financially able to support them. Overhead costs are vulnerable when revenues turn down and that's what the increased layoffs show. The economy is in danger of sliding backwards here if the blue wave fiscal stimulus spending isn't brought forward quickly in the first days of the Biden administration. The Biden administration will be judged on what they do to support the economy in the first two weeks rather than the traditional measure of the first 100 days.

Payroll jobs fall from February peak as recession began

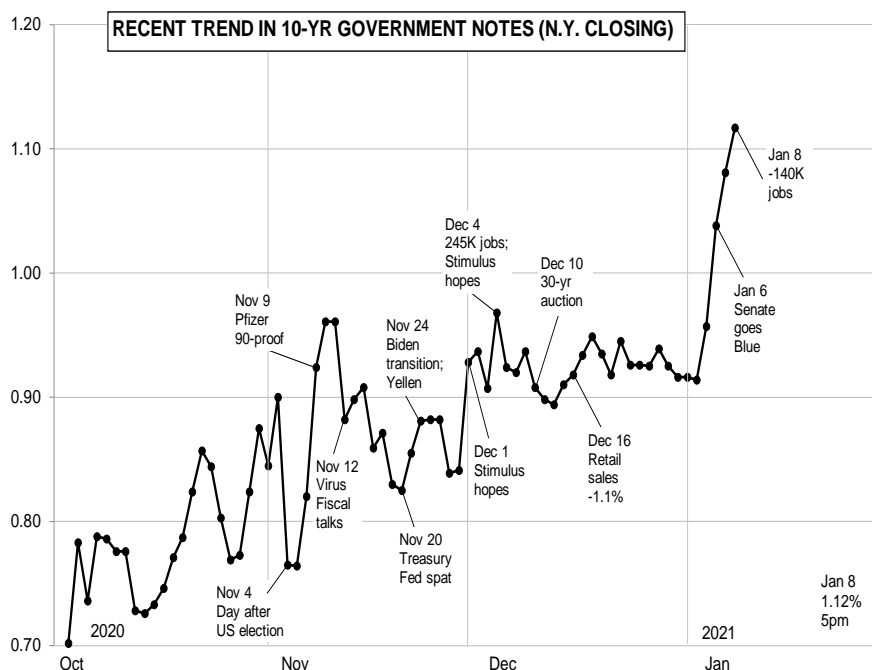
Data in thousands	10 months					
	Dec 20	Nov 20	Oct 20	Feb 20	Dec 20	Feb 2020
Nonfarm Payroll Employment	-140	336	654	-9,839	142,624	152,463
Total Private (ex-Govt)	-95	417	925	-8,495	121,223	129,718
Goods-producing	93	67	117	-853	20,352	21,205
Mining	2	3	2	-82	577	660
Manufacturing	38	35	43	-543	12,309	12,852
Motor Vehicles & parts	7	11	4	-67	932	999
Construction	51	29	72	-226	7,413	7,639
Private Service-providing	-188	350	808	-7,642	100,871	108,513
Trade, transportation, utilities	191	119	173	-759	27,071	27,830
Retail stores	121	-21	100	-411	15,261	15,672
General Merchandise	57	-11	12	126	3,173	3,047
Food & Beverage stores	8	7	7	73	3,163	3,090
Transportation/warehousing	47	128	66	-89	5,589	5,678
Truck transport	7	12	11	-43	1,484	1,527
Air transportation	3	3	-19	-119	392	511
Couriers/messengers	37	84	9	222	1,070	848
Warehousing and storage	8	19	28	88	1,296	1,208
Utilities	0	-1	-1	-8	538	546
Information	-1	2	-16	-268	2,626	2,894
Financial	12	16	30	-102	8,743	8,845
Insurance	5	3	6	23	2,840	2,818
Real Estate	5	7	14	-130	2,228	2,359
Commercial Banking	-4	-3	-3	-32	1,362	1,394
Securities/investments	2	-1	2	8	977	969
Professional/business	161	88	245	-858	20,692	21,550
Temp help services	68	42	126	-214	2,726	2,940
Management of companies	11	-1	2	-79	2,368	2,447
Architectural/engineering	4	6	3	-25	1,515	1,540
Computer systems/services	20	-5	17	-44	2,209	2,253
Legal services	0	4	6	-37	1,123	1,160
Accounting/bookkeeping	2	-1	3	-24	1,014	1,038
Education and health	-31	44	65	-1,294	23,292	24,586
Hospitals	32	8	18	-65	5,196	5,261
Educational services	-63	-5	-26	-450	3,379	3,829
Leisure and hospitality	-498	75	265	-3,908	12,959	16,867
Hotel/motels	-24	13	33	-666	1,426	2,091
Eating & drinking places	-372	14	190	-2,454	9,849	12,303
Government	-45	-81	-271	-1,344	21,401	22,745
Federal ex-Post Office	5	-87	-141	37	2,302	2,265
State government	-19	-5	-71	-373	4,826	5,199
State Govt Education	-20	1	-67	-353	2,137	2,490
Local government	-32	10	-60	-1,012	13,667	14,679
Local Govt Education	0	-8	-94	-679	7,363	8,042



MARKETS OUTLOOK

	31-Dec 2019	31-Mar 2020	30-Jun 2020	30-Sep 2020	31-Dec 2020	Q1 2021	Q2 2021	Q3 2021	Q4 2021	Q1 2022
30-Yr Treasury	2.39	1.32	1.41	1.46	1.65	1.80	1.90	2.00	2.10	2.10
10-Yr Note	1.92	0.67	0.66	0.69	0.92	1.00	1.10	1.20	1.30	1.30
5-Yr Note	1.69	0.38	0.29	0.28	0.36	0.50	0.60	0.60	0.70	0.70
2-Yr Note	1.57	0.25	0.15	0.13	0.12	0.20	0.30	0.30	0.40	0.40
3-month Libor	1.90	1.45	0.30	0.23	0.24	0.20	0.20	0.20	0.20	0.20
Fed Funds Rate	1.75	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
2s/10s spread	35	42	51	56	80	80	80	90	90	90

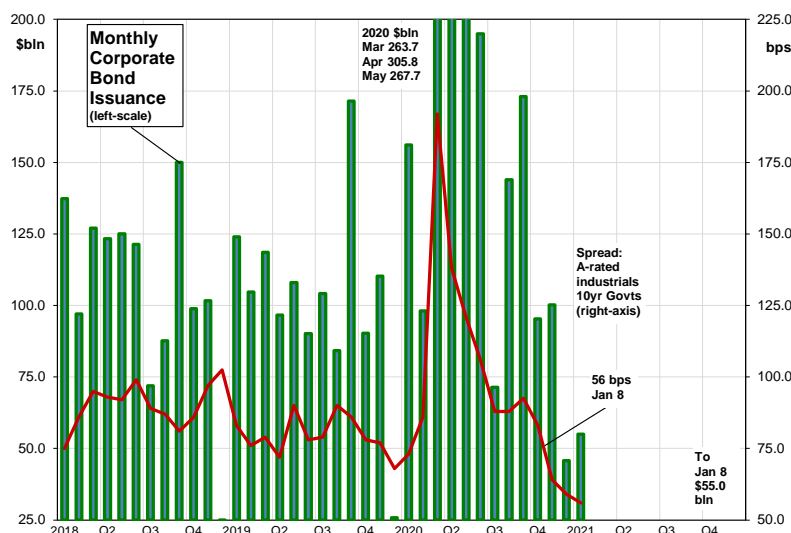
Bond yields closed 1.12% this week after 0.92% last week. Lots of political news this week with the certification of President-elect Biden's win on Wednesday. But it was the speculation and then confirmation that the Senate would indeed go Blue late Tuesday night into Wednesday with the two elections for the U.S. Senate in Georgia that pushed 10-year yields to and then through 1.00% resistance. Yields made it as high as 1.12% on Friday: not much reaction to 140K drop in payroll jobs unless traders thought weakness meant more stimulus. Later Friday morning, Fed Vice Chair Clarida said he wasn't concerned if ten-year yields were a little above 1%. So much for our idea a while back that the Fed might increase its \$80 billion monthly QE purchases of Treasuries to keep yields down to help the housing market.



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CORPORATES: BROADCOM, SOCIAL ED, HYUNDAI CAPITAL, DEERE, KROGER

Corporate bond offerings were \$55.0 billion in the January 8 week versus zero in the January 1 week. On Monday, The Home Depot sold \$3.0 billion 7s/10s/30s. It priced a \$1.25 billion 1.375% 10-yr (m-w +10bp) at 52 bps (A2/A). The world's largest home improvement retailer (2,295 US stores) will use the proceeds to replace a portion of the cash on hand used to finance the acquisition of HD Supply. Corporate bond yields (10-yr Industrials rated A2) were 56 bps above 10-yr Treasuries Friday versus 59 bps last week.



FEDERAL RESERVE POLICY

The Fed meets January 26-27, 2021 to consider its monetary policy. Powell will hold a press conference from 2:30 to 3:30pm to talk about what they didn't do; there will not be forecasts at this meeting. The December 15-16, 2020 meeting minutes were released at 2pm ET on Wednesday when the Washington riots took place in the halls of Congress so we were watching TV then. The Fed is doing \$80 billion QE purchases of Treasuries until it makes "substantive further progress" on its maximum employment and inflation goals, and there was little more to clarify this, more than what Powell said at the press conference, except perhaps they would communicate any change in purchases "well in advance." Some dealers had looked for the Fed to buy more bonds in the \$80 billion total mix of purchases, but the minutes said, "nearly all favored maintaining the current composition of purchases."

Selected Fed assets and liabilities					March 11 2020** pre-Covid
Fed H.4.1 statistical release billions, Wednesday data	6-Jan	30-Dec	23-Dec	16-Dec	
Factors adding reserves					
U.S. Treasury securities	4699.421	4688.916	4682.881	4662.841	2523.031
Federal agency debt securities	2.347	2.347	2.347	2.347	2.347
Mortgage-backed securities (MBS)	2039.469	2039.468	2086.574	2079.093	1371.846
Repurchase agreements	1.000	1.000	1.000	1.000	242.375
Primary credit (Discount Window)	1.485	1.735	2.134	1.871	0.011
MMLF	2.496	3.621	4.212	4.449	
PDCF	0.485	0.485	0.485	0.350	
Commerical Paper Funding Facility	8.557	8.557	8.557	8.557	
Paycheck Protection Facility	49.750	50.860	50.930	52.139	
Corporate Credit Facility (CCF)	26.371	46.532	46.410	46.286	
Municipal Liquidity Facility	11.680	21.278	21.275	21.267	
Main Street Lending Program	54.155	54.073	52.154	47.515	
Term Asset-Backed Facility (TALF II)	6.676	12.664	12.663	12.464	
Central bank liquidity swaps	16.911	17.883	16.833	10.048	0.058
Federal Reserve Assets	7383.6	7411.5	7452.7	7411.4	4360.0
3-month Libor %	0.23	0.24	0.25	0.24	0.77
Factors draining reserves					
Currency in circulation	2092.385	2086.909	2077.130	2068.090	1818.957
Term Deposit Facility	0.000	0.000	0.000	0.000	0.000
U.S. Treasury Account at Fed	1607.396	1613.514	1583.308	1615.873	372.337
Treasury credit facilities contribution	72.706	114.000	114.000	114.000	
Reverse repurchases w/others	0.004	0.652	0.857	0.026	1.325
Reserve Balances (Net Liquidity)	3163.778	3142.970	3177.306	3168.826	1779.990
Treasuries within 15 days	65.582	93.926	85.295	83.472	21.427
Treasuries 16 to 90 days	320.631	295.783	303.338	306.309	221.961
Treasuries 91 days to 1 year	647.973	649.811	650.885	647.778	378.403
Treasuries over 1-yr to 5 years	1768.527	1767.023	1755.671	1742.438	915.101
Treasuries over 5-yrs to 10 years	836.876	827.914	833.243	832.286	327.906
Treasuries over 10-years	1059.832	1054.458	1054.449	1050.559	658.232
**March 11, 2020 start of coronavirus lockdown of country					
MMLF: Money Market Mutual Fund Liquidity Facility: loans secured by assets bought by banks from money market funds					
PDCF: Primary Dealer Credit Facility: o/n and term funding with maturities to 90 days					
CCF: Corporate credit facility: Primary market (PMCCF) and Secondary Market (SMCCF)					

Fed Vice Chair Clarida spoke on Friday. He reviewed what the Statement on Longer-Run Goals and Monetary Policy Strategy means which is welcome because we were just thinking they wouldn't raise interest rates again for seven years, but it looks like they have their reasons. He said it is the "shortfalls" of employment from the "maximum employment level" and not "deviations." If you are still puzzled he said the difference between shortfalls and deviations is that a low unemployment rate will not trigger a tightening of monetary policy unless inflation was acting up. [Guess that explains the 3.7% 2023 unemployment rate forecast, but no rate hike in the table below.] They have a dual mandate so he then went over again what the inflation goal or target means for policy. The Fed seeks inflation that averages 2% over time now which means after a period when inflation is running below 2% they can allow it to run moderately above 2% for some time. Right. Got it. Never raise interest rates again. It is still unclear whether tightening means a rate hike from 0.25% currently to 0.50%, or whether they can move rates up to the 2.5% longer run rate without this being called tightening that would slow the economy. President Trump thought it was tightening. Doesn't seem very wise to leave interest rates at 0.25% until unemployment falls back to 3.5% and PCE inflation runs above 2.0% for several years. For one thing, it means it isn't necessary to watch the Fed as closely which puts our job in jeopardy. Probably yours too.

Fed Policy-key variables					Long Term
	2020	2021	2022	2023	
Fed funds	0.1	0.1	0.1	0.1	2.5
PCE inflation	1.2	1.8	1.9	2.0	2.0
Unemployed	6.7	5.0	4.2	3.7	4.1
GDP	-2.4	4.2	3.2	2.4	1.8
December 2020 median Fed forecasts					

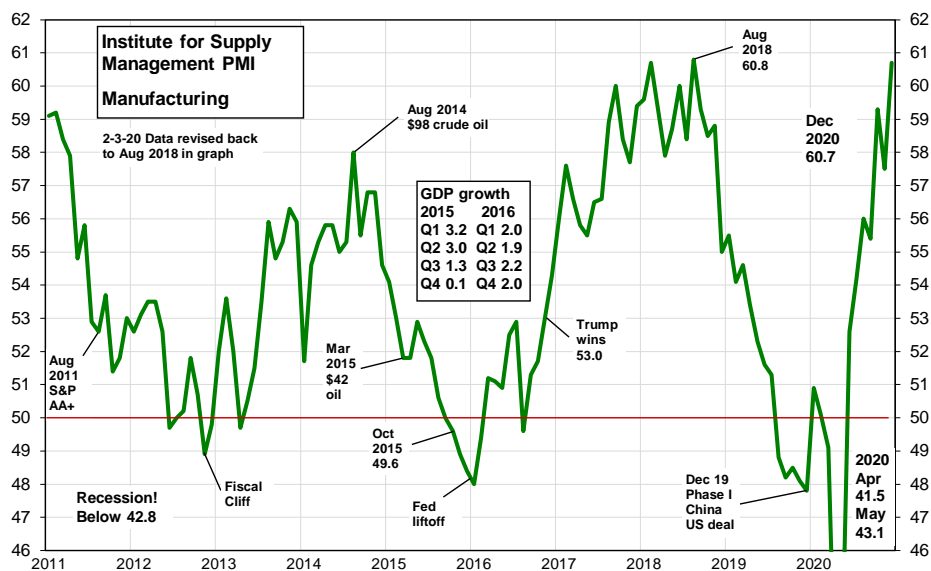
Guidance on the path of asset purchases "until substantial further progress" on max employment and 2% inflation goals
 Max employment: 6.7%
 Unemployment December 2020
 Inflation PCE inflation: 1.1% Nov 2020

OTHER ECONOMIC NEWS

Manufacturing activity is sizzling at year-end and better days lie ahead (Tuesday)

Breaking economy news. The ISM manufacturing survey index jumped 3.2 points in December to 60.7 which is just a tenth short of the 60.8 August 2018 record during the Trump administration's time in office. Manufacturing activity is sizzling hot and bodes well for a stronger 2021 for factory production. Covid precautions are still hampering production at many factories and it is hard to hire and keep staff healthy in this latest pandemic resurgence, yet manufacturing executives remain confident that business conditions will continue to normalize over the course of the new year. Production activity hit a 10-year high and factories are hiring again based on the employment index moving back above the 50 level that separates an expanding economy from a contracting one. Sixteen out of 18 industries are expanding in December while just two are in decline: Printing, and Nonmetallic Mineral Products.

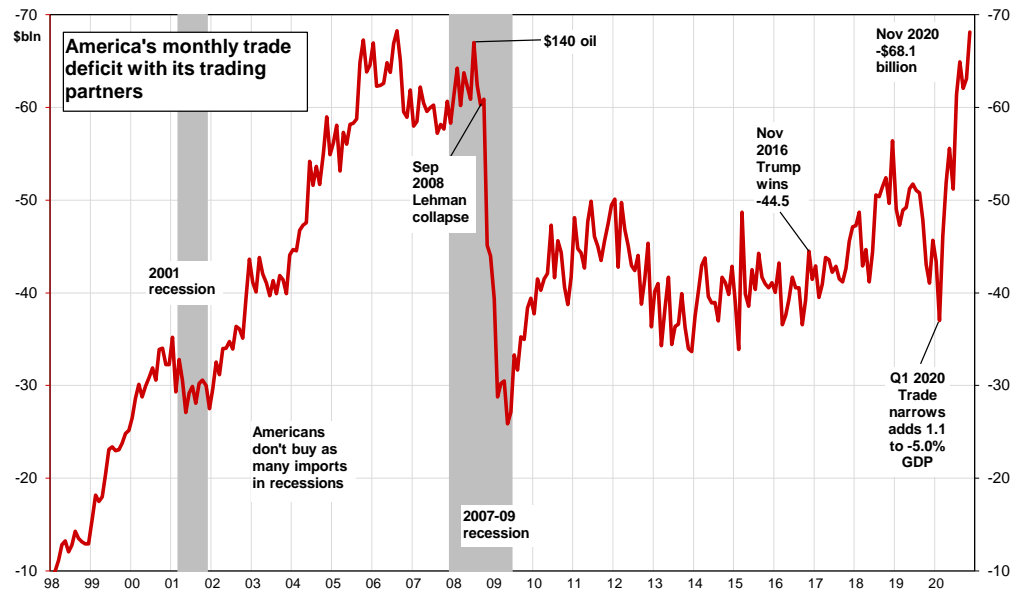
Net, net, the new Covid-related lockdowns in many states at year-end isn't dampening the confidence of manufacturing executives one bit as the wheels of factory production kicked it up a notch which is surprising given exports of goods to America's trading partners continue to languish and are well below year-ago levels. Manufacturing companies' shares on the stock exchange continue to move up to record levels and this too is bolstering the confidence of executives that the miracle vaccines will soon mean a return to normal for this economy by the end of 2021. Stay tuned. Better days are still ahead. Bet on it.



ISM manufacturing index					
	Dec 20	Nov 20	Oct 20	Sep 20	Aug 20
PMI index	60.7	57.5	59.3	55.4	56.0
Prices	77.6	65.4	65.5	62.8	59.5
Production	64.8	60.8	63.0	61.0	63.3
New orders	67.9	65.1	67.9	60.2	67.6
Supplier deliveries	67.6	61.7	60.5	59.0	58.2
Employment	51.5	48.4	53.2	49.6	46.4
Export orders	57.5	57.8	55.7	54.3	53.3

Joblessness and the trade deficit look scary as the Washington transition starts (Thursday)

Breaking economy news. Weekly jobless claims were 787 thousand to start the new year for the January 2 week which indicates the recession in the labor markets isn't over yet and hardship remains for millions of Americans without paychecks. There still seems to be an overcount of joblessness, but nonetheless, the numbers are still alarming. In the December 19 week, 19.2 million were receiving benefits through no less than eight different benefit programs. The problem with this count is that the Bureau of Labor Statistics says for November, "only" 10.7 million were unemployed behind that 6.7% unemployment rate, which is a huge difference between a depression and recession for the labor market that continues to be a mystery. Our view is that while times are bad for the unemployed, the absolute numbers are not as high as the total jobless benefits programs count suggests. Nevertheless, the economy is still stuck in a ditch and not getting any traction as far as the unemployed Americans are concerned as the Washington transition is set to start.



Meanwhile, no matter how you cut it, the Trump administration has been unable to rein in America's trade deficit with the world and our trading partners are ripping us off more than ever. The trade deficit means lost jobs and opportunities for US manufacturing and the Trump administration trade sanctions and tariffs did nothing to limit the import of foreign goods. The trade deficit in January 2017 when Trump took office was \$42.9 billion and the last figure as he leaves office is \$68.1 billion. The administration's trade policies played a big part in the deterioration, but the pandemic recession also figured prominently. In recovery, US consumers are buying goods even if they are not spending on services like bars, restaurants, entertainment. November imported goods are up 5.8% the last year to \$214.1 billion while exports of goods to the world are down 6.7% to \$127.7 billion which makes us wonder how manufacturing purchasing managers can possibly be so optimistic.

Unemployment Benefits Recipients

12/19/2020 Program

5,205,760	Regular State
16,772	Federal Employees
9,094	Newly Discharged Veterans
8,383,387	Pandemic Unemployment Assistance
4,516,900	Pandemic Emergency UC
951,364	Extended Benefits
2,359	State Additional Benefits
91,221	STC/Workshare
19,176,857	TOTAL

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