Financial Market Weekly

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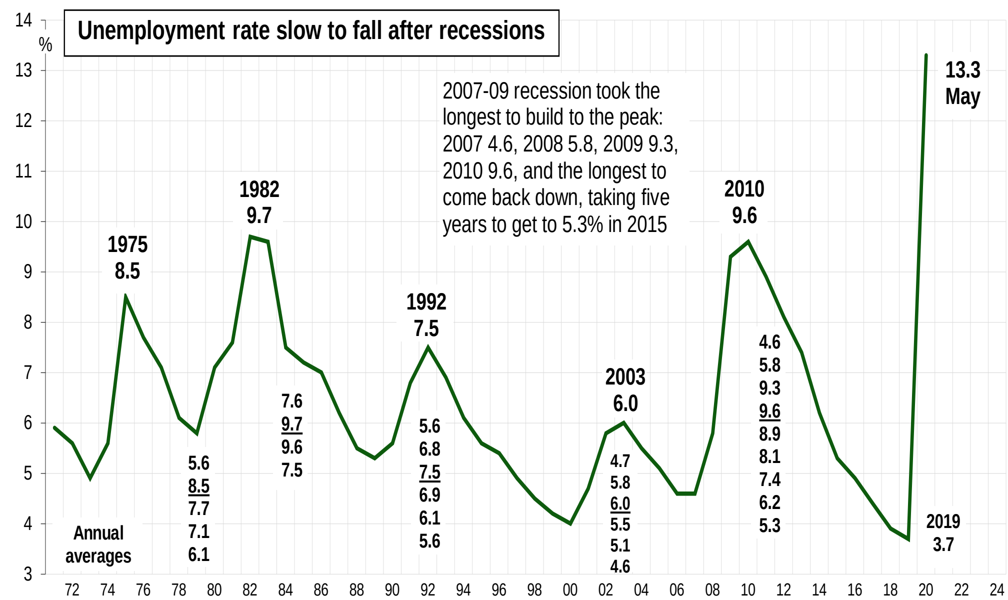
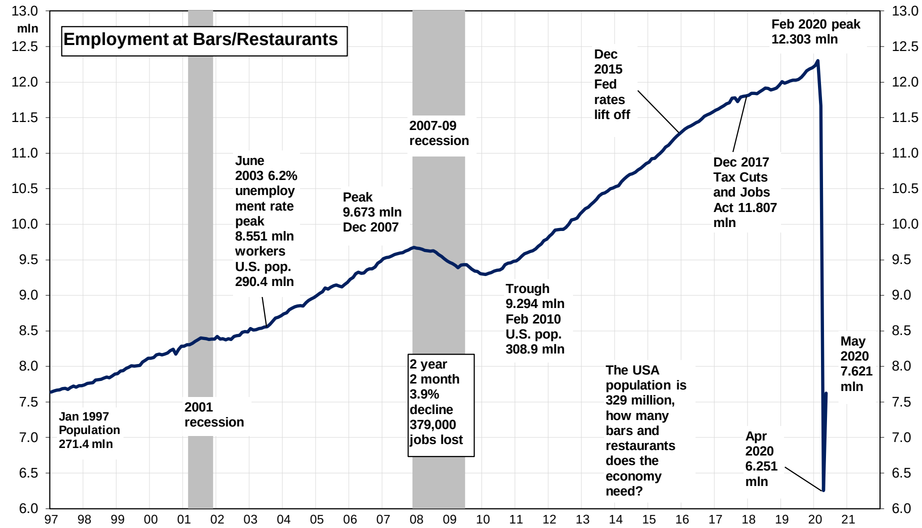
HOW QUICKLY WILL THE COUNTRY GET BACK TO WORK?

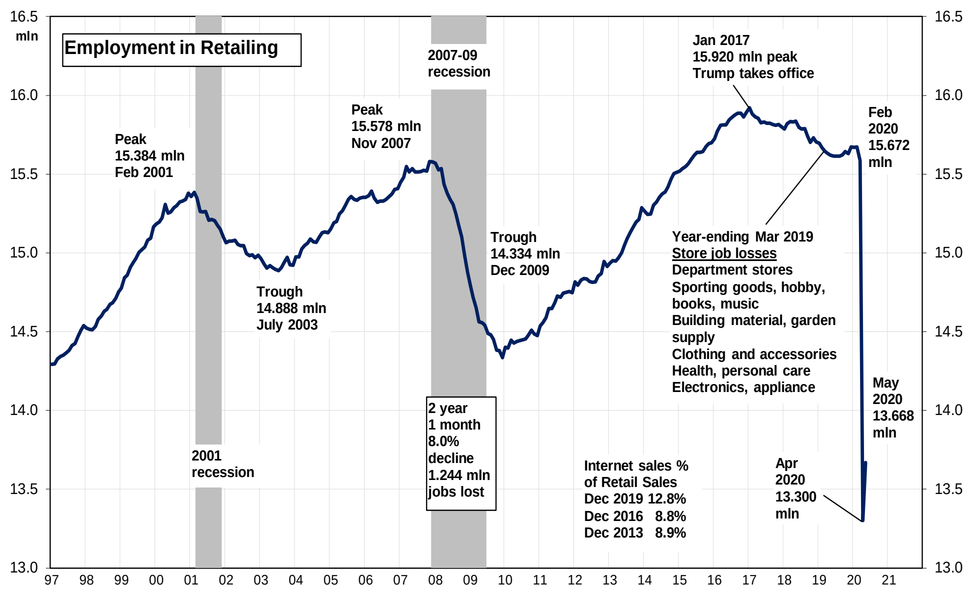


This week the National Bureau of Economic Research said the recession started in February which more properly means the last month of the long economic expansion was in February. It looks like just two consecutive negative quarters of GDP, Q1 and Q2 2020, so that fits with a "recession," even if the job losses were just two months. A not so normal recession for the duration of job losses even if the job losses were on a massive scale not seen since the Great Depression. How quickly will the country get back to work? Once workers get displaced, it takes many months if not years for them to find work again. In the graph above, following the 2001 recession, the unemployment rate didn't peak until 2003 and unemployment didn't fall back to more normal levels for another three years. After the 2007-09 recession, the unemployment rate peaked at 9.6% in 2010 and five years later in 2015 it was 5.3%, low enough for the Fed to feel comfortable raising interest rates the first time at the end of the year.

The unemployment rate was 13.3 percent in May 2020, and probably above 20% taking account of the labor force dropouts and misclassification of some "workers" surveyed by the Bureau of Labor Statistics. It might take 3 to 5 years for unemployment to fall back significantly, 2023 to 2025, based on the last two recessions. 2020 was the quickest recession in history so maybe people will get to work faster than before. The Fed forecasts at this week's meeting think so. The median forecasts are for unemployment to average 9.3% in Q4 2020, 6.5% in Q4 2021, and 5.5% in Q4 2022. Pretty fast: down to 5.5 percent over the next two and a half years.

No one knows the future for certain although we are not one of those saying Covid-19 will change the economy forever. We expect social-distancing and other coronavirus precautions to be over by this time next year when a second wave of the virus is either gone or can be ruled out as not coming. The economic recovery could be gradual until that time. This recession is different because of the adverse impact on employment for many groups of workers. We will take a closer look at just a couple of industries that were hit harder this recession: bars and restaurants, and retailing. Bar and restaurant new jobs were a big part of the expansion from the Great Recession. A huge percentage point rise from the 9.3 million low in February 2010 to 12.3 million in February 2020 at the peak. The Tax Cuts and Jobs Act signed by the President in December 2017 even added a few more jobs in the industry. The million dollar question is how fast these jobs will come back given some of the dire restaurant industry association forecasts that many closed restaurants will not reopen. We will be optimistic that the jobs loss is just 20 to 30 percent before starting to grow again. As far as retail, the jobs were already falling from the January 2017 peak. Internet sales have moved up to 12.8% of retail sales in 2019 from an 8.9% share in 2013. Department stores, sporting goods, books, building supply and clothing have all suffered.

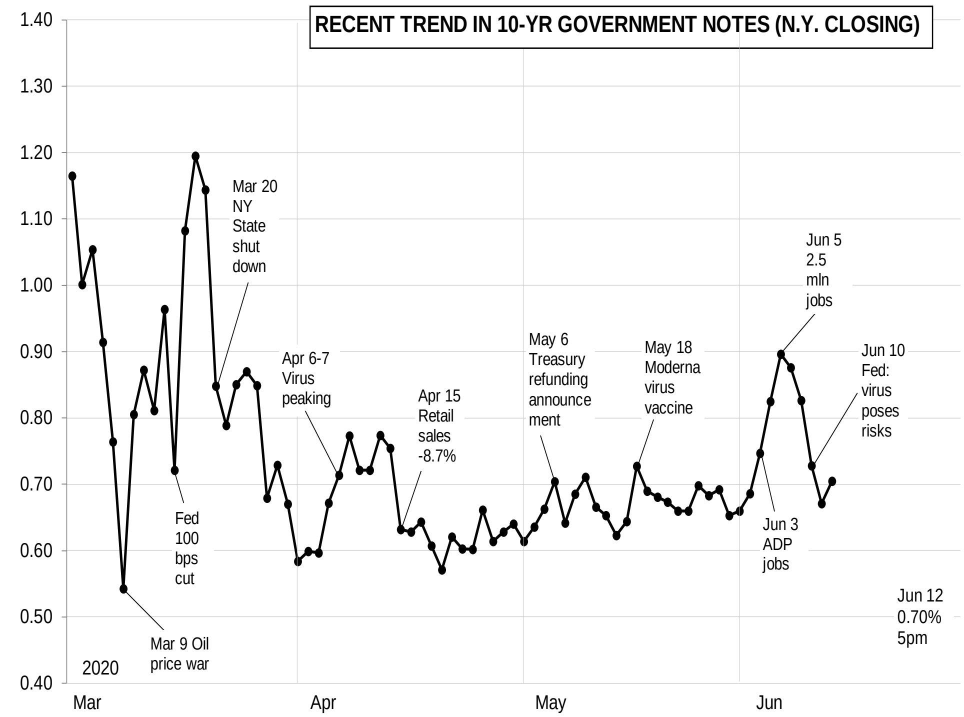




To conclude, the unemployment rate decline may be sticky with millions of jobs still in the loss column as the economy starts to recover. Forecasts are highly uncertain, but the economy may be stuck with 8% unemployment a year from now in June 2021. It's not hard to get there with "permanent" job losses of 2.5 million at hospitality and lesiure that includes bars and restaurants, 1.5 million lost in retailing, 1.5 million in manufacturing as world trade flounders, and 1.0 million state & local jobs gone with the loss of taxes, and 1.0 more jobs lost across the many other industries. There's questions about the size of the labor force a year from now, but if the best economy in 50 years was 5.7 million out of work or an unemployment rate of 3.5% in Februray this year before the storm, add in 2.5 + 1.5 + 1.5 +1.0 + 1.0 more and the unemployment rate will still be 8.0% in June 2021 with 13.2 million out of work. 13.2 million still jobless compared with 14.8 million in 2010 the worst year of the last recession.

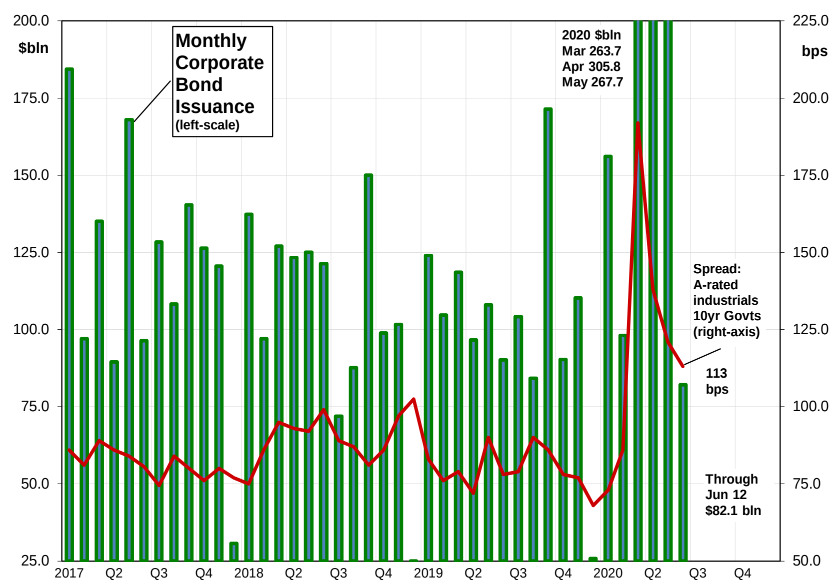
MARKETS OUTLOOK

	29-Mar 2019	28-Jun 2019	30-Sep 2019	31-Dec 2019	31-Mar 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021	Q2 2021
30-Yr Treasury	2.81	2.53	2.11	2.39	1.32	1.30	1.30	1.40	1.50	1.60
10-Yr Note	2.41	2.01	1.67	1.92	0.67	0.70	0.70	0.80	0.90	1.00
5-Yr Note	2.23	1.77	1.55	1.69	0.38	0.30	0.40	0.60	0.70	0.80
2-Yr Note	2.26	1.76	1.62	1.57	0.25	0.20	0.30	0.30	0.40	0.40
3-month Libor	2.60	2.32	2.09	1.90	1.45	0.40	0.30	0.20	0.20	0.20
Fed Funds Rate	2.50	2.50	2.00	1.75	0.25	0.25	0.25	0.25	0.25	0.25
2s/10s spread	15	25	5	35	42	50	40	50	50	60



That was quick. 0.90% last Friday and back down 20 bps to 0.70% this week despite the Fed buying "only" $4 billion a day and the Treasury auctioning $92 billion 3s/10s/30s. There's that new $17 billion 20-year auction coming Wednesday, June 17 if you need more paper. 10-yr yields closed Wednesday after the Fed meeting at 0.73% before the stock market collapse on Thursday. Powell did say they weren't even thinking of thinking of raising interest rates in the Q&A Wednesday but yields were down to 0.75% already when he said this. Bond yields fell with stocks on Thursday of course, but the biggest day's drop was 10 bps to 0.73% on Wednesday, yields moving down already to 0.77% at the 2pm Fed announcement.

CORPORATES: GE, HP, EQUINIX, DELTA AIR, SEMPRA ENERGY, MAGNA INTL



Corporate bond offerings were $30.9 billion in the June 12 week versus $50.7 billion in the June 5 week. On Monday, Phillips 66 sold $1.0 billion 5s/10s. It priced a $850 million 2.15% 10-yr (m-w +20bp) at 130 bps (A3/BBB+). The downstream energy company, operations in oil refining, marketing, and transportation, will use the proceeds for general corporate purposes including repayment or refinancing of debt. Corporate bond yields (10-yr Industrials rated A2) were 113 bps above 10-yr Treasuries Friday versus 100 bps last Friday.

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FEDERAL RESERVE POLICY

The Fed met June 9-10, 2020 to consider its monetary policy. The stock market seemed to like the 2pm ET release of the press statement and forecasts. Maybe stocks didn't like what Powell said when the press conference began at 230pm. He talked for an hour. Powell's gloomy long-road or at least non-V-shaped assessment of the economic recovery was one reason for the 1,800-point stock market collapse on Thursday, although talk of a second wave for the coronavirus outbreak seemed to be the primary cause. Second wave fears are a possible driver of the sell-off we guess if the overly emotional stock market is going to go up 1,000 points on the latest virus vaccine. Surely the Elon Musk tweet and Boeing 16% drop were part of Thursday's rout.

Selected Fed assets and liabilities					Sep 10
Fed H.4.1 statistical release					2008**
billions, Wednesday data	10-Jun	3-Jun	27-May	20-May	pre-LEH
Factors adding reserves					
U.S. Treasury securities	4150.409	4134.356	4109.512	4089.331	479.782
Federal agency debt securities	2.347	2.347	2.347	2.347	0.000
Mortgage-backed securities (MBS)	1835.595	1835.594	1835.110	1862.841	0.000
Repurchase agreements	167.300	211.550	181.101	157.351	126.750
Primary credit (Discount Window)	8.427	11.011	18.198	19.535	23.455
MMLF	26.977	29.859	33.244	36.449	
PDCF	5.829	5.847	6.241	7.501	
Commerical Paper Funding Facility	12.796	12.795	12.794	4.293	
Paycheck Protection Facility	56.983	55.230	49.211	45.090	
Corporate Credit Facility (CCF)	37.374	36.154	34.853	1.801	
Municipal Liquidity Facility	16.077	16.075	0.000		
Main Street Lending Program	31.875	0.000			
Central bank liquidity swaps	444.520	466.945	448.946	446.103	62.000
Federal Reserve Assets	7217.6	7213.4	7145.9	7085.8	961.7
3-month Libor %	0.32	0.33	0.36	0.36	2.82
Factors draining reserves					
Currency in circulation	1955.861	1952.420	1948.196	1938.599	834.477
Term Deposit Facility	0.000	0.000	0.000	0.000	0.000
Treasury credit facilities contribution	104.000	104.000	66.500	49.000	
Reverse repurchases w/others	0.012	0.013	4.326	9.726	0.000
Reserve Balances (Net Liquidity)	3190.654	3257.435	3317.688	3304.221	24.964
Treasuries within 15 days	42.873	49.583	55.608	66.859	14.955
Treasuries 16 to 90 days	292.827	283.619	279.039	274.175	31.549
Treasuries 91 days to 1 year	586.718	589.247	564.220	557.843	69.272
Treasuries over 1-yr to 5 years	1581.035	1575.173	1577.552	1568.066	170.807
Treasuries over 5-yrs to 10 years	725.316	719.393	719.915	711.258	91.863
Treasuries over 10-years	921.640	917.341	913.177	911.130	101.337

**September 10, 2008 is pre-Lehman bankruptcy of 9-15-08

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)

We haven't had the quarterly Fed forecasts since December as the March meeting was canceled with the emergency meeting Sunday night before the Tuesday-Wednesday meeting. No rate hikes through 2022. Certainly expected. The GDP forecast was -6.5% this year Q4/Q4 and one way to get there is the -5.0% in Q1, assume a 40% drop in Q2, 25% rebound in Q3, and 8% more in Q4. The growth rebound in 2021 they say is 5.5% which is not enough to drive down unemployment faster. It could be worse though: they see 9.3% unemployment in Q4 2020 and 6.5% in Q4 2021.

U.S. Treasury New Cash Needs and Fed Treasury Purchases (QE)
Monthly Changes ($ billions)
Fiscal Year (FY) Ending September 2020

	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Total FY 2020
Fed QE	67.808	73.007	80.364	80.246	64.952	504.312	993.047	138.093	40.897	2,042.7
New Cash	166.8	112.5	50.9	38.5	199.8	238.7	1368.6	699.2	492.1	3,367.1
Bills	79.1	59.0	-98.2	-12.5	160.3	92.8	1344.3	628.2	363.1	2,616.0
Coupons	87.6	53.4	149.2	51.1	39.5	145.8	24.2	71.0	129.0	750.9

We don't see much to keep a close eye on when it comes to the Fed's monetary policy other than how many Treasuries they are buying. They stopped cutting back their daily Treasury security purchases at this meeting on Wednesday and will hold to $4 billion daily. The $4 billion per day will equate to $80 billion they say now that is scheduled June 12 to July 13. Guess we cannot complain. Treasury yields aren't rising anyway "endangering" the economic recovery. $80 billion a month Treasury QE is more than the $45 billion per month QE government securities purchases the Bernanke Fed did from December 2012 to December 2013. That's getting to be a while ago.

Some investors are pointing to the Fed's various lending facilities as a reason to expect the economy to recover and for the stock market to rally. The Fed's lending facilities total $187.911 billion this week up from $155.960 billion last week: Money Market Mutual Fund Liquidity, Primary Dealer Credit, Paycheck Protection Program Liquidity, Commercial Paper Funding, Corporate Credit, Municipal Liquidity, and the Main Street Lending Program which is key for the small and medium-sized businesses Powell worries about. The Treasury backstop contribution is $104.0 billion. Plenty of dollars for borrowers overseas being provided as well with the $444.520 billion in central bank liquidity swaps. Money aplenty to keep the world stock markets afloat.

Fed Policy-key variables	2020	2021	2022	Long Term
Fed funds	0.1	0.1	0.1	2.5
PCE inflation	0.8	1.6	1.7	2.0
Unemployed	9.3	6.5	5.5	4.1
GDP	-6.5	5.0	3.5	1.8

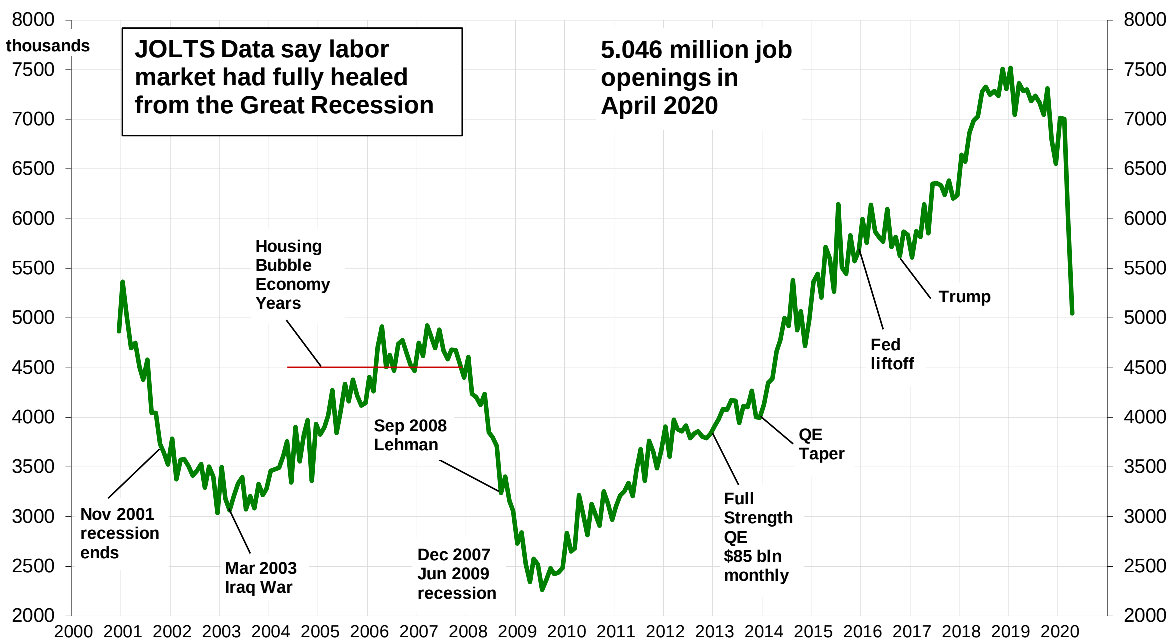
June 2020 median Fed forecasts

OTHER ECONOMIC NEWS THIS WEEK

Still 5.0 million job openings in April. Get yours while you can. (Tuesday)

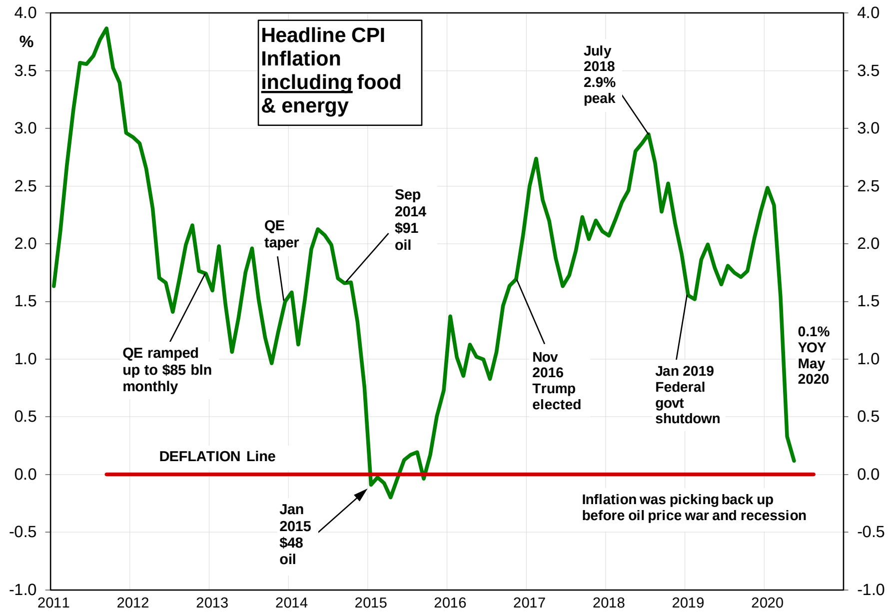
Breaking economy news. There's still plenty of jobs available out there if you need one. Some of you might. This is exactly why people don't like economists and all of their data and statistics. It doesn't add up. April was the worst single month in America's long economic history where nonfarm payroll employment fell a staggering 20.6 million and yet somehow, the Jolts data, Job Openings and Labor Turnover survey, show there are 5.0 million job openings in April, down just 965K from 6.0 million job openings in March. Go figure. There's 427 thousand jobs available out there in accommodation and food services right now. Doubt it.

Net, net, there were still some job openings available in April despite the economy's hard fall, although many of these jobs may have been posted a few months back and this isn't necessarily an opportunity for those who lost their employment in the pandemic recession. We guess the millions of openings suggest that there's always a lot of churn in the labor markets even in recessions with workers coming and going and finding new opportunities out there. Additionally, there's still a mismatch between potential hires and firms offering employment when it comes to the skills that many companies require to do the jobs they have posted as well. There was a skilled labor shortage in the best economic conditions in 50 years earlier this year, so it is not hard to believe that many companies still need help in this steepest economic decline since the Great Depression.



Headline CPI inflation falls to 0.1% year-year and just misses deflation (Wednesday)

Breaking economy news. CPI inflation fell 0.1% in May and barely has a heartbeat as prices increased just 0.1% the last year. Headline consumer prices have fallen three straight months in a row, but have somehow managed to avoid falling into negative territory and it looks now with the states reopening that the economy will just miss going into a deflationary spiral. It is a good thing that the pandemic shutdown has lifted because the economy was probably just a month away from the doom of outright depression.



It wasn't just the collapse in consumer demand since March that led to weaker prices, falling crude oil prices, with negative prices briefly in April, have also helped bring down headline CPI inflation close to the zero line that separates a deflationary economy from an inflationary one.

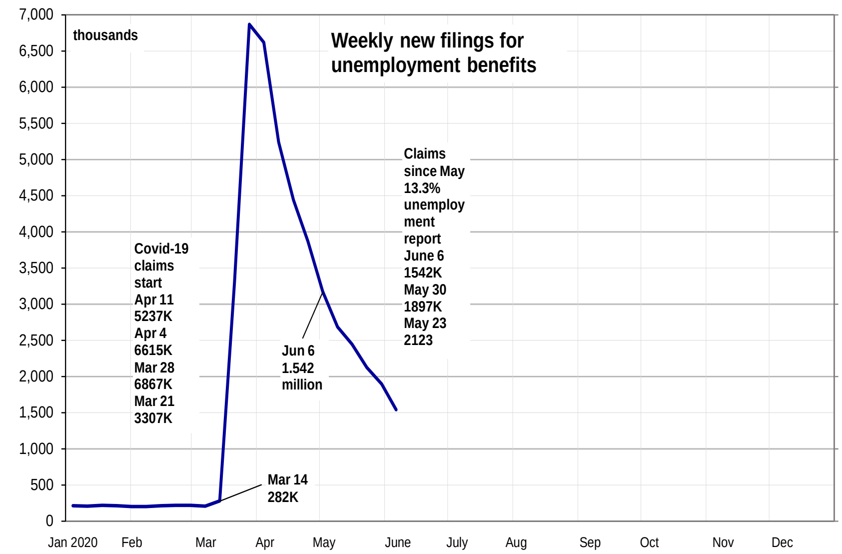
Core consumer prices fell a third consecutive month and have never done that before so we know that demand was sucked out of the economy due to the coronavirus pandemic which led to a freefall in many consumer goods and services prices. Car insurance and clothing prices are weak and airline fares and used car and truck prices fell as well. Food at home prices are going straight up, 2.6% jump in April, and now 1.0% in May, and have risen 4.8% above last year's levels as stay at home consumers gorge themselves with nothing else to do.

Net, net, consumer prices just missed tipping over into deflation this month, and with economic demand strengthening in June as the pandemic shutdown lifts throughout the country, it looks like the downward spiral in prices has ended. It was a close call, but in the end the coronavirus pandemic didn't cause another new Great Depression where deflationary downward pressures on prices keep the economy bogged down for years. This will be a slow recovery for the economy, but make no mistake, we will recover.

		Monthly Percent Changes			YOY %
Weight	CPI inflation	Mar 2020	Apr 2020	May 2020	May 2020
100.0	Total	-0.4	-0.8	-0.1	0.1
14.1	Food	0.3	1.5	0.7	4.0
7.9	Food at home	0.5	2.6	1.0	4.8
5.7	Energy	-5.8	-10.1	-1.8	-18.9
80.0	Ex-food & energy	-0.1	-0.4	-0.1	1.2
3.7	New vehicles	-0.4	0.0	0.3	-0.3
2.5	Used cars/trucks	0.8	-0.4	-0.4	-0.4
2.7	Clothing	-2.0	-4.7	-2.3	-7.9
1.6	Medical care goods	0.0	-0.1	0.1	0.8
33.5	Shelter	0.0	0.0	0.2	2.5
5.1	Transportation	-1.9	-4.7	-3.6	-8.7
7.3	Medical care services	0.5	0.5	0.6	5.9

Someone hit the panic button, sell stocks, it's a going to be a jobless recovery (Thursday)

Breaking economy news. What on earth could investors be thinking? There are 1.542 million applying for unemployment benefits in the June 6 week and the worst week of filings in the Great Recession where stocks fell 50 percent from the highs were just 665 thousand. And don't forget to add in the 705 thousand gig workers applying for unemployment benefits in the June 6 week under Pandemic Unemployment Assistance Claims.



The first step to full labor market recovery is for weekly new jobless benefit filings to fall back to 220 thousand per week where they were before the country shut down in March and today's figures exceed that level by over a million newly jobless workers as the labor market continues to churn.

The unemployment rate may be 13.3 percent with 20.9 million out of work, but there are 29.4 million collecting unemployment benefit checks today versus just 2.1 million at the start of March before the country shut down and tipped over into a recession. The numbers don't add up. It is harder to count the number of unemployed than it is counting the number of votes in a presidential election.

Net, net, this may be the most confusing labor market picture ever seen in any recession in history, but all can agree it will be months if not years to get back to the best economy in 50 years that America enjoyed at the start of the year. When the nation's chief economist, Fed Chair Powell, is confused about the joblessness count, you know there's a problem. The Fed Chair at yesterday's press conference seems to believe that the unemployment rate is actually over 20 percent at the moment, so he is keeping his foot down on the gas which means low rates forever and $4 billion purchases of government securities daily for as long as it takes. There were 5.7 million unemployed before the coronavirus pandemic lockdown in February and it is 20 million today, but joblessness and woe-is-me labor market distress is much greater than this if you add in the misclassification error of the BLS survey last month worth a few percentage points on the rate, the millions of discouraged people simply giving up and dropping out of the labor force, and the millions more working part-time now because they can't get full-time work in this recession. There are too many millions of walking-wounded jobless workers to count in this recession.

Unemployment Rolls Total

	Total getting Jobless Benefits	Total "Continuing" Claims	Pandemic gig worker claims
Mar 13	2,074,800	2,074,800	0
Apr 25	25,175,004	21,772,595	3,402,409
May 2	27,000,032	20,879,704	6,120,328
May 9	30,587,211	22,794,145	7,793,066
May 16	29,787,814	18,861,428	10,926,386
May 23	28,814,198	19,098,250	9,715,948
May 30	29,432,565	18,919,804	10,512,761

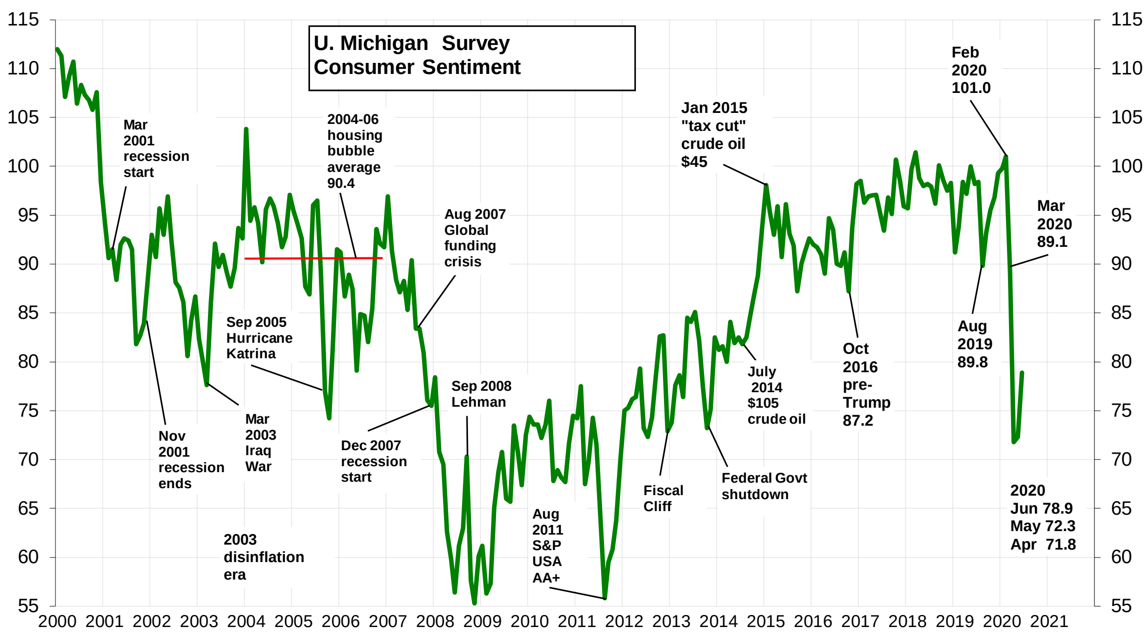
For the stock market, it's as if someone hit the panic button and now everyone is selling stocks because it looks like it's going to be a long, drawn-out, jobless recovery after all. The recession may be technically over after two quarters of negative GDP growth, but the economy won't be fully recovered until the labor markets say everyone has got their jobs and paychecks back to help the country spend its way to sustainable prosperity. You can't have a V-shaped stock market recovery if you don't have a V-shaped recovery in the labor market. Bet on it.

Consumers are feeling better as the worst of the pandemic storm is over (Friday)

Breaking economy news. The consumer sentiment survey from the University of Michigan jumped 6.6 points in June to 78.9. The consumer is clearly feeling more confident after hibernating the last three months. The states started reopening in May, but consumers were slow to respond at first as the survey rose just 0.5 percentage points to 72.3. Normal for the best economy in 50 years is way higher at 101.0 in February, so there is a long way to climb back from this recession for consumer spirits. Consumer confidence seems to have responded to the increase in employment in June rather than financial markets which continue to rally as investors see better economic times ahead for the country in the next two or three years.

Net, net, consumer confidence in the future is slowly starting to return at the start of summer and if they put their money where their mouths are and make more trips to the shopping mall then it is looking like the recession that began in February could be over in a hurry. The economy won't come back on its own with just consumers emerging from the country's three-month coronavirus pandemic lockdown. The hope is that business confidence will return as well and investment spending will rebound to help power the economy forward once companies see that the consumer is back and is buying the goods and services they offer.

There's no second wave of pessimism about the economy from consumers as they slowly return to life as it was before the coronavirus pandemic virus shut down the economy in March. The consumer agrees with us that this could well be the shortest recession on record.



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