Financial Market Weekly

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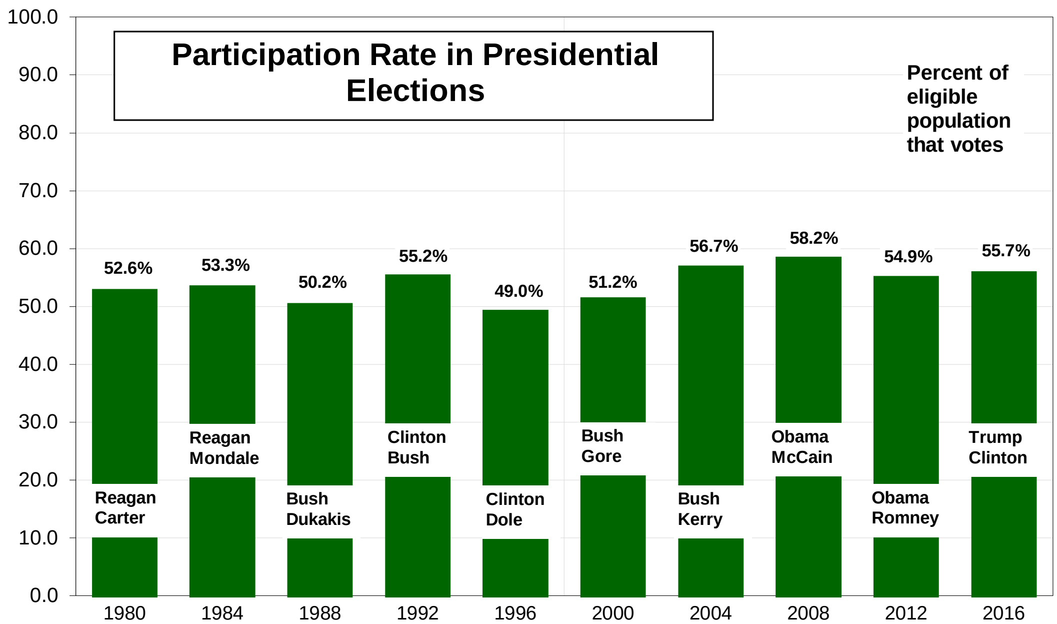
DON'T FORGET TO VOTE



Heard that all our lives ever since we hit voting age. We thought we would review the upcoming presidential election, not so much the economic policies proposed by Trump and Biden because there are too many uncertainties there, but just look back at the history of elections in general. And don't forget to vote… even if millions and millions of Americans do just that: don't vote. We are always shocked when seeing the numbers on how many Americans don't vote in these "most important elections of our lifetimes" every four years. It's not just lately, this lackluster participation in democracy, it has been going on for a long time. The percent of the eligible population that votes every four years for president doesn't change much. Clinton versus Dole in the 90s was the lowpoint at 49.0 percent looking back to the 1980s where people couldn't bother to vote relatively speaking. Obama versus McCain was the big matchup the history books are already writing, but still only 58.2 percent voted. In Trump versus Clinton the turnout was 55.7%, not much different from 2012 with Obama versus Romney. The popular vote went to Clinton by almost three million votes. The last time a candidate lost the popular vote and became president was

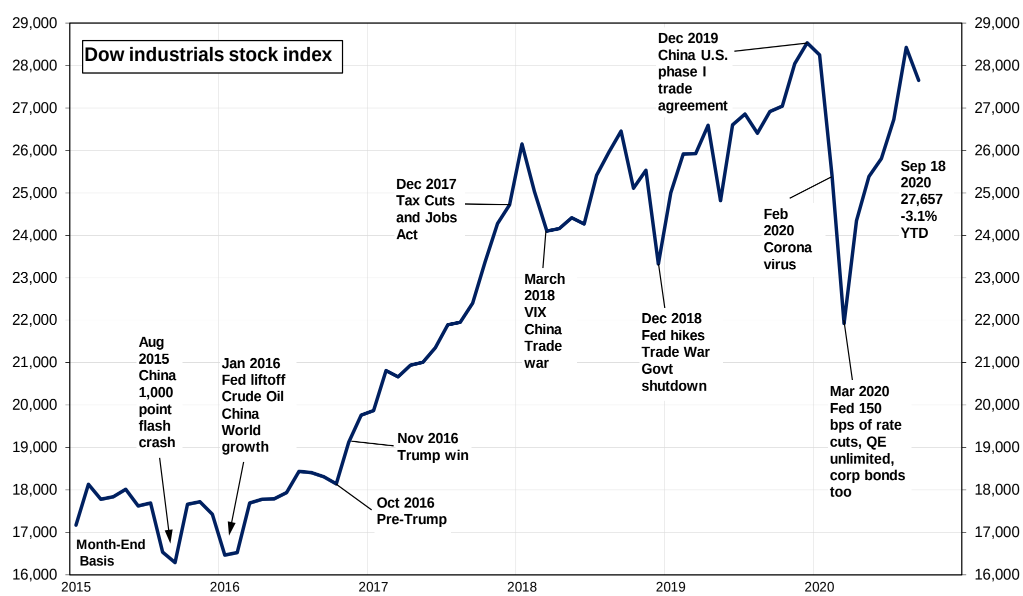
President takes Office		Unemployment
Clinton	Jan 1993	7.3%
Bush	Jan 2001	4.2%
Obama	Jan 2009	7.8%
Trump	Jan 2017	4.7%

Bush in 2000 although he lost the popular vote by about 500 thousand out of 101 million votes cast for the top two candidates. Many of these elections were quirky looking back on it with the popular votes often closer than you remember and electoral college votes wider than you remember. The Clinton-Gore win in 1992 looks less decisive when you account for the fact that independent Ross Perot got 18.9% of the vote.

Presidential Elections and The Economy

						Unemployment rate in:	
		President/VP	Vote	Vote %	Electoral	November	Year before
Nov 2016	R	Trump/Pence	62,984,828	46.1	304	4.7	5.1
	D	Clinton/Kaine	65,853,514	48.2	227		
Nov 2012	D	Obama/Biden	65,915,795	51.1	332	7.7	8.6
	R	Romney/Ryan	60,933,504	47.2	206		
Nov 2008	D	Obama/Biden	69,498,516	52.9	365	6.8	4.7
	R	McCain/Palin	59,948,323	45.7	173		
Nov 2004	R	Bush/Cheney	62,040,610	50.7	286	5.4	5.8
	D	Kerry/Edwards	59,028,444	48.3	251		
Nov 2000	R	Bush/Cheney	50,456,002	47.9	271	3.9	4.1
	D	Gore/Lieberman	50,999,897	48.4	266		
	G	Ralph Nader	2,882,955	2.7	0		
Nov 1996	D	Clinton/Gore	47,401,185	49.2	379	5.4	5.6
	R	Dole/Kemp	39,197,469	40.7	159		
	I	Ross Perot	8,085,294	8.4	0		
Nov 1992	D	Clinton/Gore	44,909,806	43.0	370	7.4	7.0
	R	Bush/Quayle	39,104,550	37.4	168		
	I	Ross Perot	19,743,821	18.9	0		
Nov 1988	R	Bush/Quayle	48,886,097	53.4	426	5.3	5.8
	D	Dukakis/Bentsen	41,809,074	45.6	111		
Nov 1984	R	Reagan/Bush	54,455,472	58.8	525	7.2	8.5
	D	Mondale/Ferraro	37,577,352	40.6	13		
Nov 1980	R	Reagan/Bush	43,903,230	50.7	489	7.5	5.9
	D	Carter/Mondale	35,480,115	41.0	49		
	I	John Anderson	5,719,850	6.6	0		
Nov 1976	D	Carter/Mondale	40,831,881	50.1	297	7.8	8.3
	R	Ford/Dole	39,148,634	48.0	240		

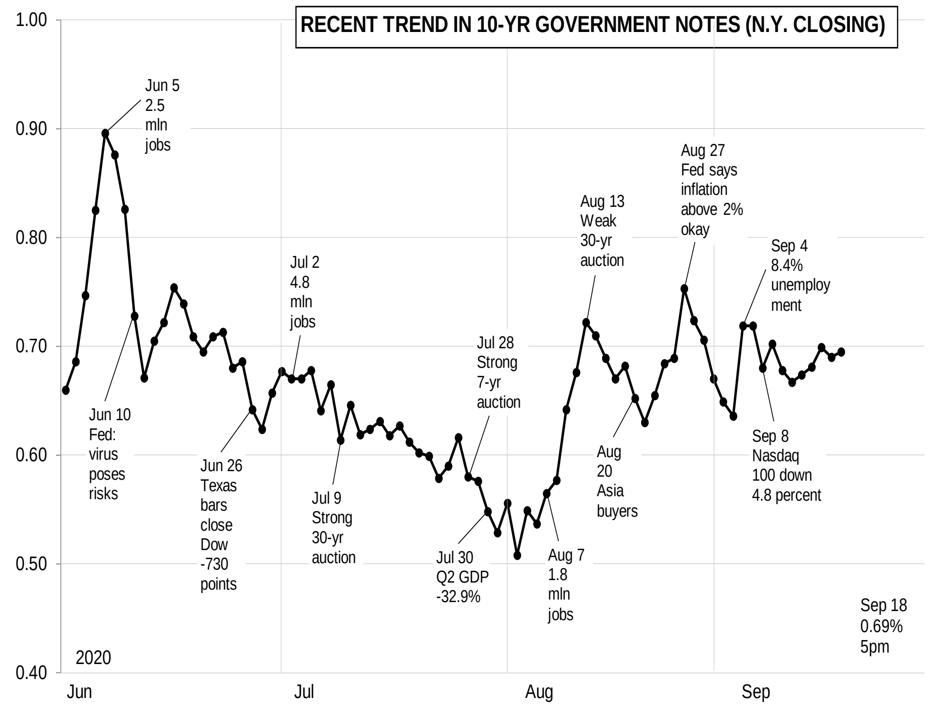
There is an economic model pretending to predict the outcome of presidential elections by looking at the unemployment rate. You can judge for yourselves whether the unemployment rate climbing or falling before elections helped or hurt the outcomes. Maybe it's just an historical coincidence and we don't want to offend anyone, but the Republicans have taken over the reins in economic good times recently, while the Democrats have won when the economy was in bad times. This isn't the best metric although it does show a recession occurring two months after Bush took office in 2001. He had two recessions happen on his watch, although one probably can't blame a president for causing a recession two months after getting there.



Everyone wants to know about the stock market in this election after the late-night experience four years ago. Harder to say where stocks go in this crazy market with the S&P 500 rally drawn along by the five headless horsemen of the apocalypse stocks. Election night results late on Tuesday, November 8, 2016, had S&P 500 futures falling 5.0% from Tuesday's close in the early hours on Wednesday morning. Stocks had second thoughts and the S&P futures closed 1.2% higher on Wednesday versus Tuesday's close. Get ready. Don't forget to vote and buckle your seat belts after you do.

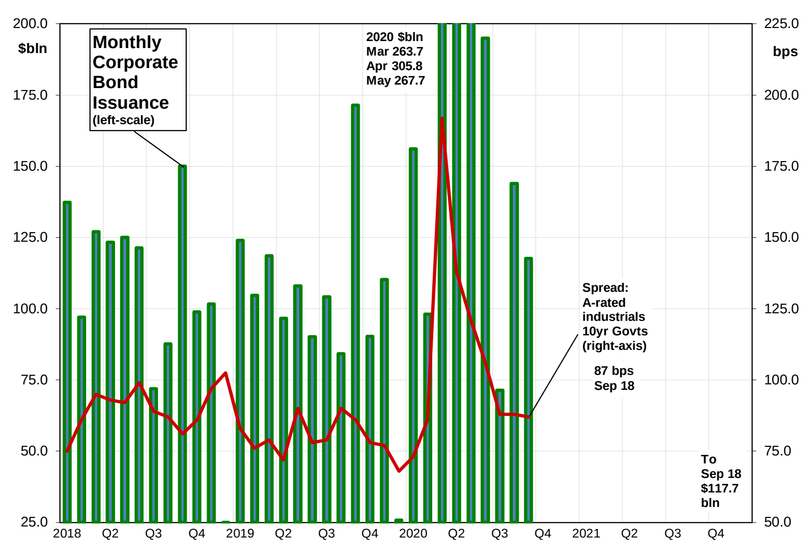
MARKETS OUTLOOK

	28-Jun 2019	30-Sep 2019	31-Dec 2019	31-Mar 2020	30-Jun 2020	Q3 2020	Q4 2020	Q1 2021	Q2 2021	Q3 2021
30-Yr Treasury	2.53	2.11	2.39	1.32	1.41	1.40	1.40	1.50	1.60	1.70
10-Yr Note	2.01	1.67	1.92	0.67	0.66	0.70	0.70	0.80	0.90	1.00
5-Yr Note	1.77	1.55	1.69	0.38	0.29	0.30	0.30	0.40	0.50	0.60
2-Yr Note	1.76	1.62	1.57	0.25	0.15	0.20	0.20	0.20	0.30	0.30
3-month Libor	2.32	2.09	1.90	1.45	0.30	0.30	0.30	0.20	0.20	0.20
Fed Funds Rate	2.50	2.00	1.75	0.25	0.25	0.25	0.25	0.25	0.25	0.25
2s/10s spread	25	5	35	42	51	50	50	60	60	70



Bond yields closed 0.69% this week after 0.67% last week. It's possible the Fed meeting moved the bond market on Wednesday, although a lot seems to center on Powell's Q&A response about 15 minutes into his press conference. 10-year Treasury yields were about 0.665% at the 2pm ET release on Wednesday of the Fed press statement and forecasts. The statement itself took yields to 0.68% and then Powell's Q&A answer, the first question no less, saying no change in QE for now, various ways to adjust, but appropriate for now. That's it. Worth 2 bps higher in yields to 0.70%, and we'll leave it to you to decide this was "dovish" and so resulted in a steepening of the yield curve as it did in the old days. Anyway, the stock market seemed to see selling at the same time around 243pm ET. Go figure. It isn't logical. Never is.

CORPORATES: VERIZON, SOUTHERN CO., COCA-COLA, DELTA AIR, CHUBB



Corporate bond offerings were $44.2 billion in the September 18 week versus $67.8 billion in the September 11 week. On Thursday, Emerson Electric priced a $750 million 0.875% 6-yr (m-w +10bp) at 65 bps (A2/A). The designer and manufacturer of electronic and electrical equipment, software, systems, services will use the proceeds for general corporate purposes, repayment of commercial paper and to pay part of its Open Systems Intl (OSI) acquisition. Corporate bond yields (10-yr Industrials rated A2) were 87 bps above 10-yr Treasuries Friday versus 89 bps last week.

FEDERAL RESERVE POLICY

The Fed met September 15-16, 2020 to consider its monetary policy. More interesting than we expected even if our same basic forecast stays the same with no rate hike for seven years just like what happened after the 2007-09 Great Recession. The Fed Chair really likes that record-low 3.5% unemployment rate at the start of the year (all w/o inflation!) and it doesn't look like he would do anything with policy that could jeopardize a return to those halcyon days for the U.S. economy with a chicken in every pot and dog in every backyard. We were thinking ahead of time that the new statement of principles on August 27 (yes, central bankers have principles) meant that with inflation-averaging, the Fed might delay rate hikes until inflation averaged above 2% for a number of years to cancel out the same number of years inflation was below target. But no, it looks like liftoff, the first Fed rate hike, will not see such an extended delay, and could take place with PCE inflation touching 2.0% the first time as long as policymakers were convinced that not only had inflation hit 2% (not without $90 crude oil surely) but that inflation "is on track to moderately exceed 2% for some time." The point is interest rates can go up again some day, but that tighter policy, interest rates above the longer run "normal" level of 2.5%, are many years away if ever. Rates only made it to 2.5% this time around in December 2018 before the Fed started easing back after the first time the stock market crashed. Powell was asked about the $80 billion QE purchases of Government securities, what conditions might cause the committee to alter them, but he refused to go there and Powell seems okay that the purchases of nearly $1 trillion per year of the National Debt are improving "financial conditions" as opposed to the improving market function reasons at the start of the pandemic shutdown in mid-March.

Selected Fed assets and liabilities

Fed H.4.1 statistical release billions, Wednesday data	16-Sep	9-Sep	2-Sep	26-Aug	Sep 10 2008** pre-LEH
Factors adding reserves					
U.S. Treasury securities	4407.005	4393.621	4386.637	4358.559	479.782
Federal agency debt securities	2.347	2.347	2.347	2.347	0.000
Mortgage-backed securities (MBS)	2005.035	1949.599	1949.236	1949.228	0.000
Repurchase agreements	0.000	0.000	0.000	0.000	126.750
Primary credit (Discount Window)	3.036	2.710	2.956	2.704	23.455
MMLF	7.440	7.889	9.141	9.961	
PDCF	0.258	0.243	0.243	0.243	
Commerical Paper Funding Facility	8.588	8.588	8.588	8.588	
Paycheck Protection Facility	67.181	67.489	68.090	68.158	
Corporate Credit Facility (CCF)	44.923	44.790	44.756	44.604	
Municipal Liquidity Facility	16.544	16.543	16.541	16.541	
Main Street Lending Program	38.959	38.899	38.687	38.371	
Term Asset-Backed Facility (TALF II)	11.430	11.147	11.146	10.771	
Central bank liquidity swaps	52.274	72.069	88.967	92.140	62.000
Federal Reserve Assets	7113.1	7059.2	7065.5	7039.0	961.7
3-month Libor %	0.23	0.25	0.25	0.26	2.82
Factors draining reserves					
Currency in circulation	2029.177	2030.151	2021.810	2013.961	834.477
Term Deposit Facility	0.000	0.000	0.000	0.000	0.000
Treasury credit facilities contribution	114.000	114.000	114.000	114.000	
Reverse repurchases w/others	0.055	0.001	0.014	0.009	0.000
Reserve Balances (Net Liquidity)	2869.309	2906.853	2850.600	2875.399	24.964
Treasuries within 15 days	59.413	42.916	51.692	64.117	14.955
Treasuries 16 to 90 days	257.882	279.463	263.002	237.185	31.549
Treasuries 91 days to 1 year	668.093	656.032	663.688	663.816	69.272
Treasuries over 1-yr to 5 years	1658.504	1662.166	1662.079	1648.650	170.807
Treasuries over 5-yrs to 10 years	778.237	770.951	766.933	771.901	91.863
Treasuries over 10-years	984.876	982.093	979.243	972.889	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)

Fed Policy-key variables	2020	2021	2022	2023	Long Term
Fed funds	0.1	0.1	0.1	0.1	2.5
PCE inflation	1.2	1.7	1.8	2.0	2.0
Unemployed	7.6	5.5	4.6	4.0	4.1
GDP	-3.7	4.0	3.0	2.5	1.9

September 2020 median Fed forecasts

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

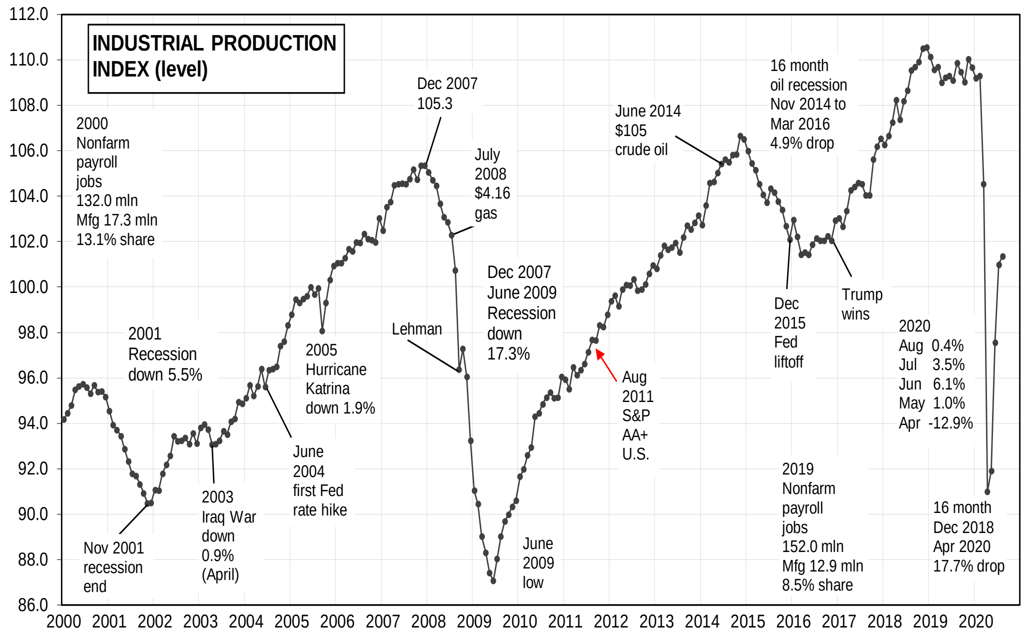
As far as the Fed forecasts, GDP is not falling in as much of hole as it was looking three months ago so the rebound in 2021 will be less. The unemployment rate forecast looks important to us, Powell's 3.5% comment notwithstanding. Liftoff for interest rates in December 2015 took place with a 5.0% unemployment rate and those days are certainly gone. No one believes that 5.0% is the best the economy can do for American workers. We would just note it was once thought to be true under Fed Chair Yellen the Fed funds rate was supposed to be at normal, longer run levels (2.5% today versus 2.75% when Yellen left the office) when the unemployment rate more or less hit its best, lowest level and now that certainly won't be the case going forward as Fed Chair Powell observes that the country had a 3.5% rock-bottom low unemployment rate without sparking inflation.

OTHER ECONOMIC NEWS THIS WEEK

Recovery in factory production starting to stall (Tuesday)

Breaking economy news. Industrial production rose just 0.4% in August which is a slower rise than 3.5% in July. Total production is down 7.7% from year ago levels showing the recession continues to drag down the manufacturing recovery as demand for factory goods has failed to rebound as much as industry executives have hoped. It is looking increasingly like the recovery in factory production will stall in coming months if no one from Washington is going to ride to the rescue with another pandemic stimulus package. Half-baked measures like $300 weekly unemployment checks and ill-conceived payroll tax cuts that are not real but deferred are unlikely to help the country emerge stronger from the recession.

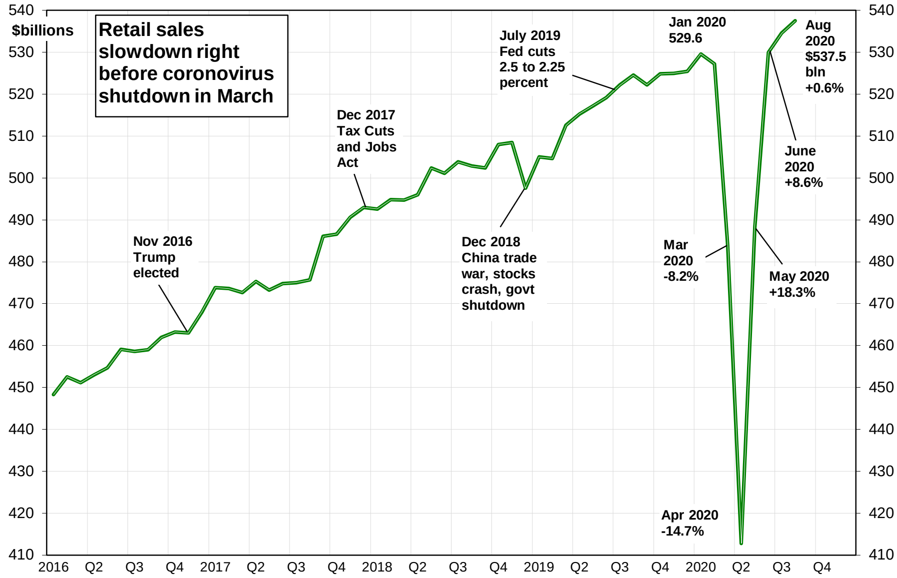
Production was held to a 0.4% gain in August as mining fell a sharp 2.5% due to oil rig shutdowns in the Gulf from Tropical Storm Marco and Hurricane Laura. Manufacturing production was stronger with an increase of 1.0%. Durable manufacturing output still climbed 0.7% despite a drop in motor vehicle output. Nondurable manufacturing was up 1.2% helped along by a rise of over 3 percent for apparel and leather and for plastics and rubber products the Federal Reserve report said.



Net, net, industry leaders are expressing disappointment that Washington has been unable to agree on additional stimulus to aid the recovery and now we can see why as industrial output is in danger of stalling out well short of the best economy in decades at the start of the year. The pandemic isn't over and neither are the troubles for many industries across the country as manufacturing production is still nearly 7 percent less than it was a year earlier. It is too early to declare victory from this deep recession with millions still out of work and factory production sputtering. The coronavirus has made the public cautious and this uncertainty is keeping factories from opening back up completely. Stay tuned. Story developing.

Percent changes			Industrial Production August 2020		
Jun	Jul	Aug	YOY		Weight
6.1	3.5	0.4	-7.7	Total Index	100.0
7.5	3.9	1.0	-6.9	Manufacturing	75.3
3.0	1.4	-2.5	-17.9	Mining	14.2
1.3	3.8	-0.4	0.5	Utilities	10.4
			Manufacturing payroll jobs 12.1 million -716K YOY 10.2% of Private Payroll Jobs		

Store sales slow: outright declines for some shops missing the $600 checks (Wednesday)



Breaking economy news. Retail sales in August rose 0.6% to $537.5 billion which is a slowdown from the 0.9% increase in July. A 0.6% August increase is almost $3 billion and the roughly $50 billion drop in unemployment benefits in August from July must have limited spending in today's data. Grocery store sales were down 1.6% in August. Sporting goods, hobbies and book stores dropped 5.7% in August. Department stores were down 2.3% in August. Even Internet sales made from your smart phone lying on the couch working from home were flat this month.

Retail sales are higher than spending levels last year at this time but there are big winners and losers. Focusing on what is not back to normal after the steepest and shortest downturn in American history, bars and restaurants sales are still down 15.4% from last year, clothing stores down 20.4%, department stores are off 16.9%, gasoline stations down 15.4%, electronics and appliances are 2.4% lower than last August. The economy has a long way to go before sales return to normal even though retail sales will set a record in the third quarter. The retail sales increase in the third quarter with July and August data are running nearly 60%, after falling 25.7% in Q2 2020, which could push GDP growth 35% if all the stars align properly. Third quarter real GDP will be released Thursday, October 29 before the Tuesday, November 3 election, but keep in mind consumer spending includes the purchases of services which are not recorded in retail sales in terms of doctor visits, travel etc.

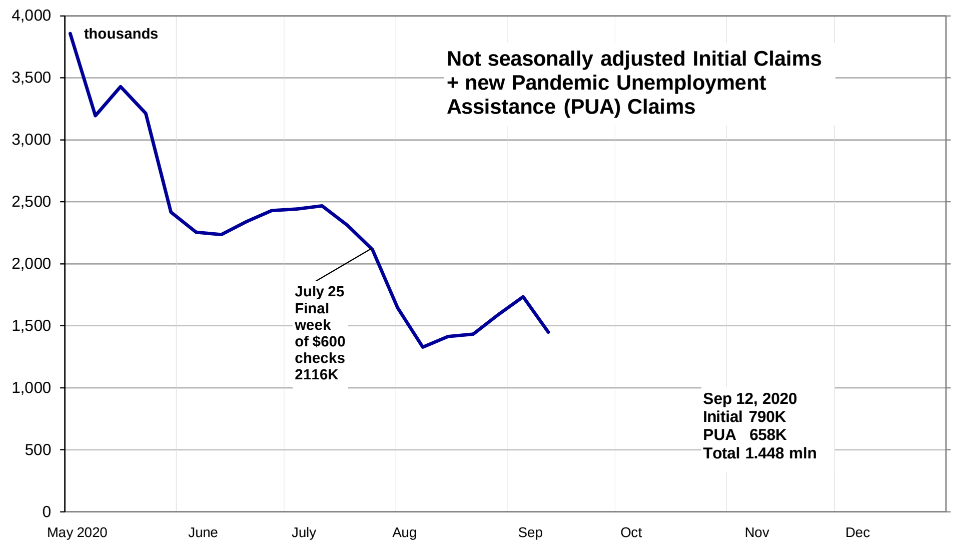
Net, net, it will be a record quarter for consumer spending and GDP, but all is not well in this on-again, off-again recovery from the pandemic with retail sales gains at many stores struggling midway through the quarter. Washington pulled the rug out from under store owners by cutting off benefits to tens of millions of unemployed workers before they could find a job. We have concerns about how strong the recovery will be in the fourth quarter and our optimistic 7.0% real GDP growth forecast looks on increasingly shaky ground unless more jobless workers can find a place in this economy following the pandemic recession.

Retail spending, actual dollars, each month

	$million	% to	Percent Changes %		
	Aug 2020	Total	Aug	Jul	Year/year
Total Retail Sales	537,526	100.0	0.6	0.9	2.6
Motor vehicles/parts	109,832	20.4	0.2	-1.0	4.5
Furniture/furnishings	10,233	1.9	2.1	0.9	3.8
Electronics/appliances	7,897	1.5	0.8	20.7	-2.4
Building materials/garden	37,259	6.9	2.0	-2.4	15.4
Food & beverage	71,046	13.2	-1.2	0.6	10.0
Health/personal care	31,380	5.8	0.8	4.5	5.6
Gasoline stations	35,184	6.5	0.4	4.4	-15.4
Clothing/accessories	17,733	3.3	2.9	2.2	-20.4
Sporting goods, books	7,429	1.4	-5.7	-5.3	11.1
General merchandise	60,344	11.2	-0.4	-1.1	0.8
Department stores	9,402	1.7	-2.3	2.0	-16.9
Miscellaneous retailers	11,405	2.1	-0.2	3.0	-0.6
Nonstore retailers (internet)	83,140	15.5	0.0	0.3	22.4
Eating & drinking places	54,644	10.2	4.7	4.1	-15.4

Home construction recovery stalls; job losses continue at recession levels (Thursday)

Breaking economy news. Housing starts and weekly jobless claims. Initial unemployment claims were 860 thousand in the September 12 week which is lower and better if you can call it that from 893 thousand in the September 5 week. Not seasonally adjusted claims were 790 thousand in the September 12 week because everyone has a job in the final weeks of summer than they normally do throughout the year especially when cold weather sets in, so the seasonal factors boost the raw total. What we see is nothing but doom ahead for the economy in these numbers with 790 thousand new workers applying for benefits in the regular state program and 658 thousand additional sacked workers applying for assistance payments in the Pandemic Unemployment Assistance program for the self-employed. That totals 1.448 million ex-workers made redundant by the weakest recovery from any recession we can ever recall despite all the misplaced hoopla over GDP's 25-35 percent rise expected in the third quarter. The economy is not back for the millions and millions of unemployed many of whom are in service industries that may not regain their old strength and vigor for years.



Meanwhile, housing has been a bright spot with residential housing construction rising in May, June and July from the housing sector's worst day of only 934 thousand homes starting construction in April at an annual rate. Housing starts reached 1.492 million in July before falling back 5.1% in August to 1.416 million. Single-family home construction in the Northeast was hit especially hard with a 21.9% drop even if it is small potatoes regionally with 57 thousand homes starting construction. The biggest market for new home construction is in the South and these remained fairly high in August at 538 thousand which is a decline of 3.8%. Single-family home construction in the West bounced 23.4% to 264 thousand which is the best level seen since January before the pandemic hit.

Net, net, the economy still looks to be stuck in a rut and unable to gain traction with new job losses higher than any week of the Great Recession over a decade ago and residential home construction stalling out despite the over-the-top optimism of home builders.

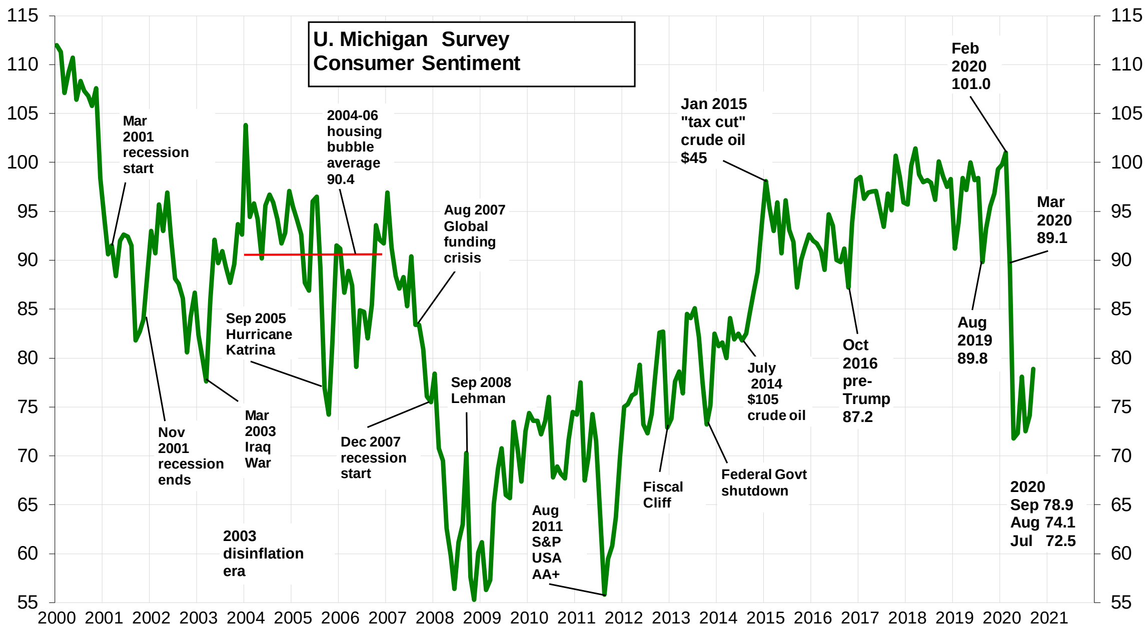
Housing Starts Total, Single-Family, Multi-Family

	United States			Northeast		Midwest		South		West	
000s	Total	1 unit	Multi	Total	1 unit	Total	1 unit	Total	1 unit	Total	1 unit
Aug 20	1416	1021	375	89	57	267	162	699	538	361	264
Jul 20	1492	981	503	133	73	208	135	849	559	302	214
Aug 19	1377	911	451	168	61	190	131	718	491	301	228
% Chgs											
Aug/Jul	-5.1	4.1	…	-33.1	-21.9	28.4	20.0	-17.7	-3.8	19.5	23.4
Aug/Aug	2.8	12.1	…	-47.0	-6.6	40.5	23.7	-2.6	9.6	19.9	15.8

Growth will not be sustainable with this level of joblessness numbering in the tens of millions. The Fed's rate cuts brought down bond yields and mortgage rates to record lows but the stimulus seems to have run its course for now as housing construction's V-shaped recovery has hit a wall.

Slow and steady return in consumer sentiment supports the economic outlook (Friday)

The consumer is cautious but not unreasonably so and it looks like the cloud of uncertainty is not holding back consumer expenditures as the country reopens after the second wave shutdowns in recent months. Consumer spending especially for retail sales if not for services remains well ahead of the rebound in consumer confidence. Consumers are more confident than they have been since the low-point for pessimism if not downright fear during the Covid-19 lockdowns that hit the economy hard in April. If slow and steady wins the race, then it is true that the consumer's rising confidence will support the economy going forward which is remarkable given the fact that millions of consumers are actually unemployed without paychecks. The slow and steady return in consumer sentiment supports the case for a more positive economic outlook ahead of the elections this fall. It's 12 o'clock and all is well for now, but we will see how the consumer feels on November 4th.



Analyst Certification

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