Financial Market Weekly

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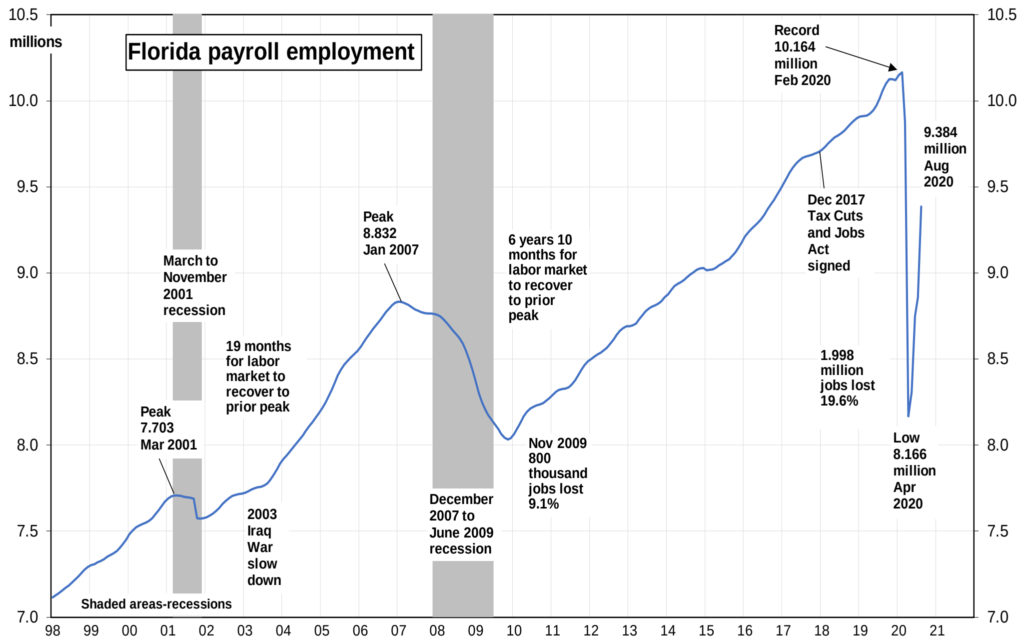
FLORIDA OPENS BACK UP, WHAT ABOUT THE ECONOMY?



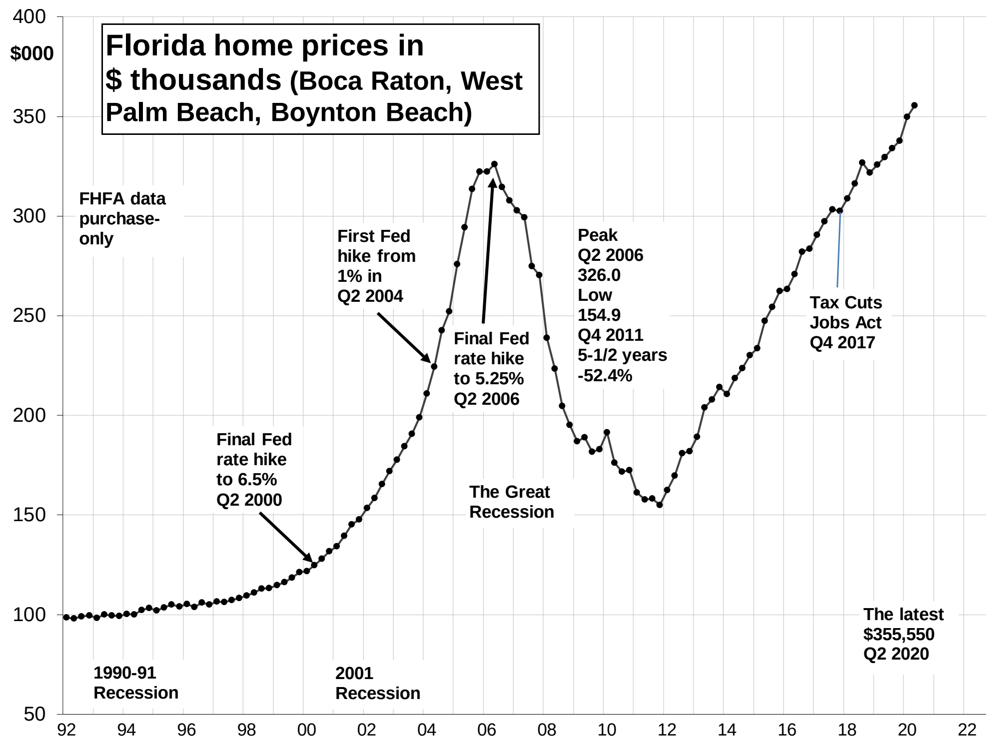
On Friday, Florida governor DeSantis moved his state into the phase three stage of reopening from the pandemic lock down, lifting restaurant restrictions, and we thought we would look at how the third largest state's economy is doing this week.

The labor market is bouncing back to where it was in February where payroll employment has recovered 61% of its losses that took place over just two months. Nationwide the recovery in payroll employment is just 49%. Florida did well for most of the 2001 recession where most of the biggest job losses were just in that one month of October after 9/11. Florida was not as lucky in the Great Recession where the decline in payroll employment was 9.1% and employment did not return to the peak in January 2007 for nearly seven years. That peak in jobs was a year before the first month of the downturn of the Great Recession probably because the housing bust took place well before the recession started. Florida was a key subprime lending state along with California and Nevada.

Florida Labor Market Trends

Thousands	Feb 2020	Aug 2020	Change	% Chg
Employment	10,164	9,384	-780	-7.7
Unemployed	290	753	463	--
Rate	2.8	7.4	4.6	
Payroll employment	9,071	8,525	-546	-6.0
Mining/Logging	5.7	5.6	--	--
Construction	583.7	561.9	-21.8	-3.7
Manufacturing	388.7	373.3	-15.4	-4.0
Trade/Trans/Utilities	1,821.4	1,755.3	-66.1	-3.6
Information	137.9	125.7	-12.2	-8.8
Financial activities	596.4	585.8	-10.6	-1.8
Professional/Business	1,409.1	1,331.4	-77.7	-5.5
Education/Health	1,363.7	1,327.8	-35.9	-2.6
Leisure/Hospitality	1,280.0	1,008.1	-271.9	-21.2
Other services	354.7	323.5	-31.2	-8.8

In terms of what industries are up and down, leisure and hospitality jobs are still down 21.2% in August from February levels which is understandable for a state with Disney and Universal theme parks and entertainment venues as some of the biggest employers so it is not just restaurants and bars. The second largest drop in jobs is a tie with 8.8% declines for both information jobs and other services employment. Other services employed 354 thousand at the peak in February and include membership associations and organizations, repair and maintenance companies, and believe it or not, personal and laundry services is a big employer. Information jobs employed 137 thousand in February and include publishing industries, motion picture and broadcasting employment, telecommunications, data processing among other employers.



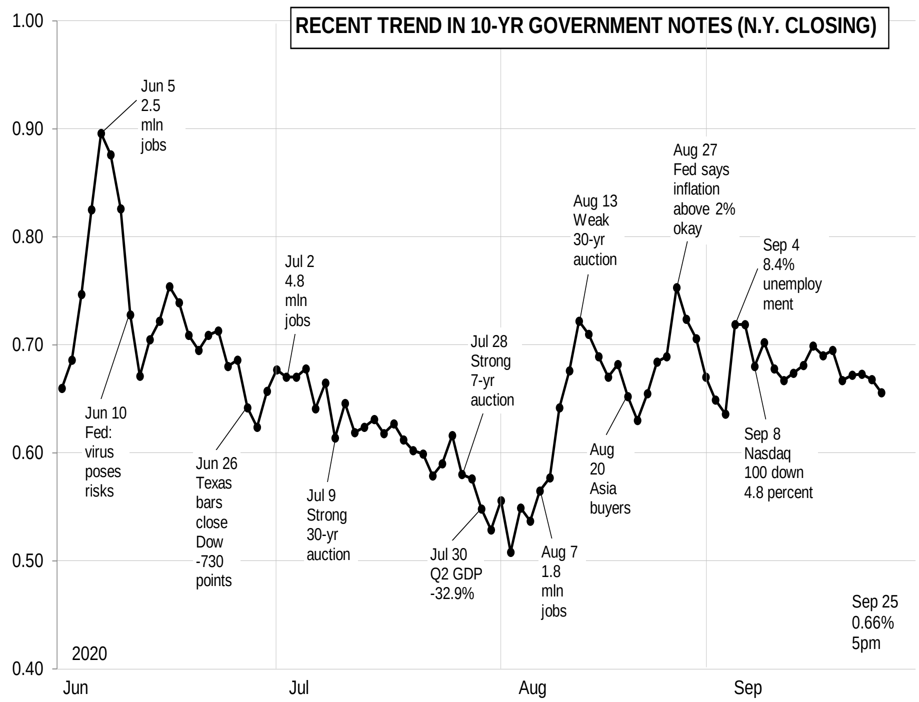
Your home is your castle and you want to know what it is worth although the advice from experts is a little like the advice given about the stock market's current valuation where if you are selling in a couple years get out now at any price, but if you don't need to move for twenty years then don't worry what it is worth or where it is trading. Just a number on a piece of paper. Forget about it. Many areas of Florida to look at but we chose West Palm Beach and Boca Raton. The housing bubble in the early 2000s wasn't hurt by the Fed's rate cuts from 6.5% to 1% which brought mortgage rates from over 8% to down under 6% for the first time looking back to the 70s. It ended badly, that's how you know it was a bubble, and using this home price index like a price, prices collapsed over 50% from $326,000 in mid-2006 to the low of $154,900 late in 2011. What a bargain that was as home prices are on a tear and no one who bought in the housing bubble is under water anymore. Home prices are actually accelerating with a gain of 7.9% in Q2 2020 from year ago levels to $355,550. The gain in Q2 2019 year-to-year was 4.2%. The Great State of Florida. With no state personal income tax and the American alligator as the official state reptile, what's not to like. Home builders think so. A lot of land available to build on still. Florida is the second biggest state for housing permits; Texas overtook Florida for residential home construction starting in 2006.

Housing Permits - Florida

	Total	One Unit	5 or more Units	Number of Structures with 5 or more Units
2019	154,302	99,831	51,339	1,407
2018	144,427	97,055	44,308	1,354
2017	122,719	85,267	35,254	992
2016	116,240	75,148	38,777	1,236
2015	109,924	67,670	40,455	1,347
2014	84,084	56,259	26,077	968
2013	86,752	55,385	29,478	930
2012	64,810	42,178	21,752	887
2011	42,360	31,874	9,680	485
2010	38,679	30,040	7,725	526
2009	35,329	26,636	7,984	401
2008	61,042	38,709	20,783	878
2007	102,551	70,030	29,871	1,456
2006	203,238	146,236	51,860	2,603
2005	287,250	209,162	71,512	3,661
2004	255,893	187,463	61,077	3,157

MARKETS OUTLOOK

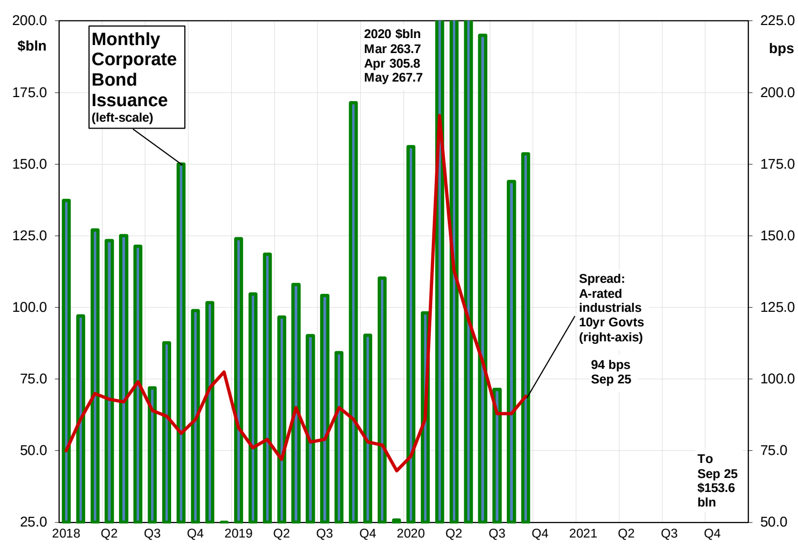
	28-Jun 2019	30-Sep 2019	31-Dec 2019	31-Mar 2020	30-Jun 2020	Q3 2020	Q4 2020	Q1 2021	Q2 2021	Q3 2021
30-Yr Treasury	2.53	2.11	2.39	1.32	1.41	1.40	1.40	1.50	1.60	1.70
10-Yr Note	2.01	1.67	1.92	0.67	0.66	0.70	0.70	0.80	0.90	1.00
5-Yr Note	1.77	1.55	1.69	0.38	0.29	0.30	0.30	0.40	0.50	0.60
2-Yr Note	1.76	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 0.66% this week after 0.69% last week. A little of everything brought bond yields down on Monday. Financial stocks were hit, the virus was spreading again in the U.K. and Europe, Supreme Court Justice Ginsburg passed away making it "more difficult for the passage of additional fiscal stimulus," and Dow industrials fell 509 points. That was Monday. Not much happened after that with stocks continuing to fall until Thursday. The tech sell-off brought the S&P 500 down as far as 10.6% high to low from September 2 to September 24. Bonds ignored much of the decline in stocks. Nothing to change the outlook for steady yields with the Fed buying $80 billion a month, almost $1 trillion a year. The Treasury new cash needs were $4.0 trillion in FY20 and the Fed bought $2.3 trillion of it.

CORPORATES: GILEAD SCIENCES, CENTENE, EQUINIX, CARVANA, SEMPRA

Corporate bond offerings were $34.3 billion in the September 25 week versus $44.2 billion in the September 18 week. On Wednesday, American Tower sold $1.1 billion 10s/30s. It priced a $800 million 1.875% 10-yr (m-w +20bp) at 125 bps (Baa3/BBB-). The wireless communications and broadcast towers company will use the proceeds to repay its 2019 Credit Facility and the April 2020 Term Loan. Corporate bond yields (10-yr Industrials rated A2) were 94 bps above 10-yr Treasuries Friday versus 87 bps last week.



FEDERAL RESERVE POLICY

The Fed meets November 4-5, 2020 to consider its monetary policy. That's a long time to wait. Not that the markets care with most of the focus on the Nasdaq 100 index, but there were some Fed officials speaking this week trying to explain their inflation target reaction function for interest rates (remember those?) even though it could be years before interest rates move higher. Rates will stay lower for longer. Exhibit One: The Fed left interest rates at zero for seven years after the 2007-09 Great Recession. Exhibit Two: The personal consumption expenditures (PCE) inflation measure the Fed favors never seems to ever find any inflation even in the best of times like in the late 1990s when real GDP growth was red-hot at 5% and there was a stock market bubble with gains of 20 percent per year from 1995 to 1999 (is that with dividends?) making even economists on Wall Street rich before it all ended badly. Exhibit Three: There can never be enough employment so don't ruin the party by taking away the punch bowl with higher interest rates. In addition to inflation, the August 27 change to its Statement on Longer-Run Goals and Monetary Policy Strategy said "the FOMC emphasized that maximum employment is a broad-based and inclusive goal and reports that its policy decision will be informed by its 'assessments of the shortfalls of employment from its maximum level.' The original document referred to 'deviations from its maximum level.'" Powell himself said he kinda liked 3.5% unemployment before the pandemic, and the FOMC forecasts say longer term unemployment is 4.1%, so there are miles to go before the economy gets back to normal. The Fed forecasts also still think longer term interest rates are 2.5% but they won't be talking about that again for a long time.

Selected Fed assets and liabilities					Sep 10
Fed H.4.1 statistical release					2008**
billions, Wednesday data	23-Sep	16-Sep	9-Sep	2-Sep	pre-LEH
Factors adding reserves					
U.S. Treasury securities	4431.523	4407.005	4393.621	4386.637	479.782
Federal agency debt securities	2.347	2.347	2.347	2.347	0.000
Mortgage-backed securities (MBS)	2024.868	2005.035	1949.599	1949.236	0.000
Repurchase agreements	0.000	0.000	0.000	0.000	126.750
Primary credit (Discount Window)	3.359	3.036	2.710	2.956	23.455
MMLF	7.344	7.440	7.889	9.141	
PDCF	0.233	0.258	0.243	0.243	
Commerical Paper Funding Facility	8.588	8.588	8.588	8.588	
Paycheck Protection Facility	67.254	67.181	67.489	68.090	
Corporate Credit Facility (CCF)	44.972	44.923	44.790	44.756	
Municipal Liquidity Facility	16.546	16.544	16.543	16.541	
Main Street Lending Program	39.355	38.959	38.899	38.687	
Term Asset-Backed Facility (TALF II)	11.431	11.430	11.147	11.146	
Central bank liquidity swaps	31.950	52.274	72.069	88.967	62.000
Federal Reserve Assets	7141.6	7113.1	7059.2	7065.5	961.7
3-month Libor %	0.23	0.23	0.25	0.25	2.82
Factors draining reserves					
Currency in circulation	2029.101	2029.177	2030.151	2021.810	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	0.001	0.055	0.001	0.014	0.000
Reserve Balances (Net Liquidity)	2848.082	2869.309	2906.853	2850.600	24.964
Treasuries within 15 days	72.212	59.413	42.916	51.692	14.955
Treasuries 16 to 90 days	247.998	257.882	279.463	263.002	31.549
Treasuries 91 days to 1 year	671.972	668.093	656.032	663.688	69.272
Treasuries over 1-yr to 5 years	1665.299	1658.504	1662.166	1662.079	170.807
Treasuries over 5-yrs to 10 years	787.290	778.237	770.951	766.933	91.863
Treasuries over 10-years	986.752	984.876	982.093	979.243	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)

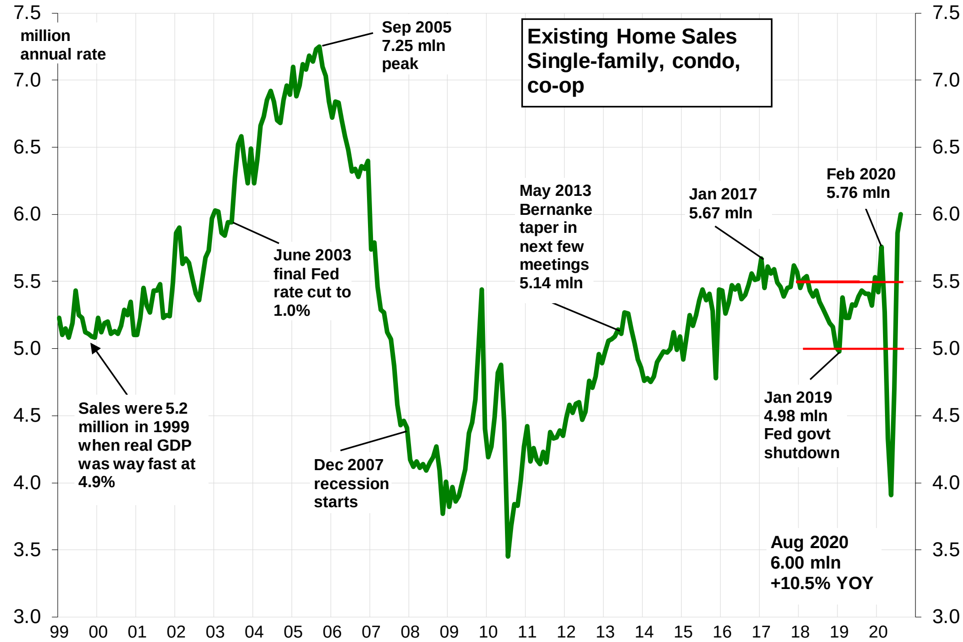
U.S. Treasury New Cash Needs and Fed Treasury Purchases (QE)
Monthly Changes ($ billions)
Fiscal Year (FY) Ending September 2020

	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Total FY 2020
Fed QE	67.808	73.007	80.364	80.246	64.952	504.312	993.047	138.093	87.892	96.159	64.996	72.964	2,323.8
New Cash	166.8	112.5	50.9	38.5	199.8	238.7	1368.6	699.2	685.2	102.2	175.6	176.5	4,014.5
Bills	79.1	59.0	-98.2	-12.5	160.3	92.8	1344.3	628.2	449.7	-0.7	-2.2	-47.8	2,651.9
Coupons	87.6	53.4	149.2	51.1	39.5	145.8	24.2	71.0	235.5	102.9	177.6	224.3	1,362.1
Federal Reserve's 11 Lending Facilities (month-end outstanding)					0	58.352	94.641	136.343	204.607	203.100	197.237	195.333	
Central bank liquidity swaps (month-end outstanding)					0.044	206.051	438.953	448.946	274.963	117.473	92.140	31.950	

OTHER ECONOMIC NEWS THIS WEEK

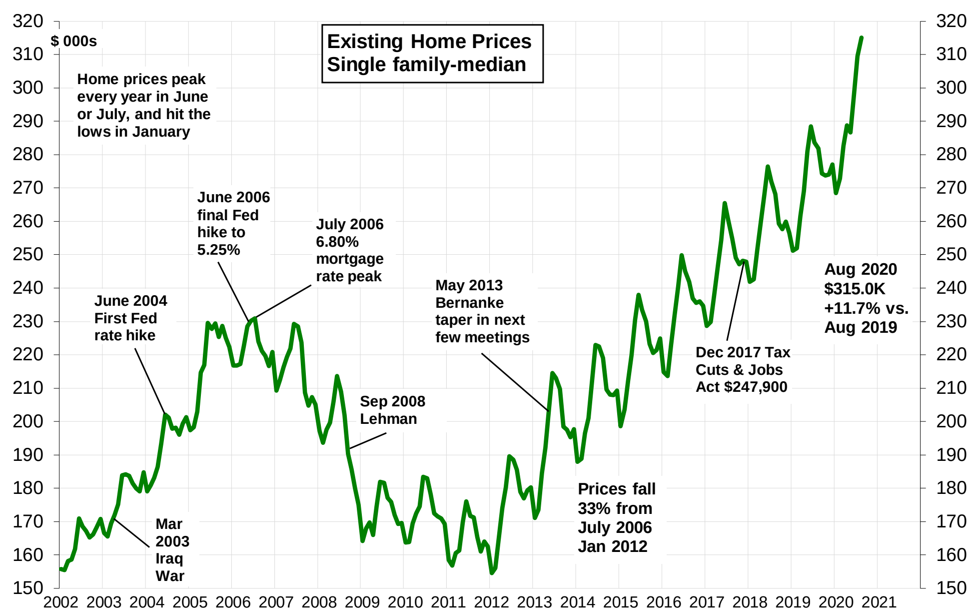
Existing home sales back to pre-Covid levels: home prices set records (Tuesday)

Breaking economy news. Existing home sales are back to pre-Covid levels at the start of the year. Existing home sales, single-family and condos, rose 2.4% to 6.0 million at an annual rate in August from 5.86 million in July. Sales in the Northeast jumped the most in August, by 13.8%, but all areas of the country are above where they were in January and February this year before the pandemic shut the economy down.



Existing home sales prices continue to move skyward as now everyone wants a home and prices in August versus August a year ago are up 10.4% in the Northeast to $349,500, 10.7% higher in the Midwest to $246,300, 12.3% in the South to $269,200, and prices out West up 11.8% the last year to $456,100. Those Blue states really live high on the hog.

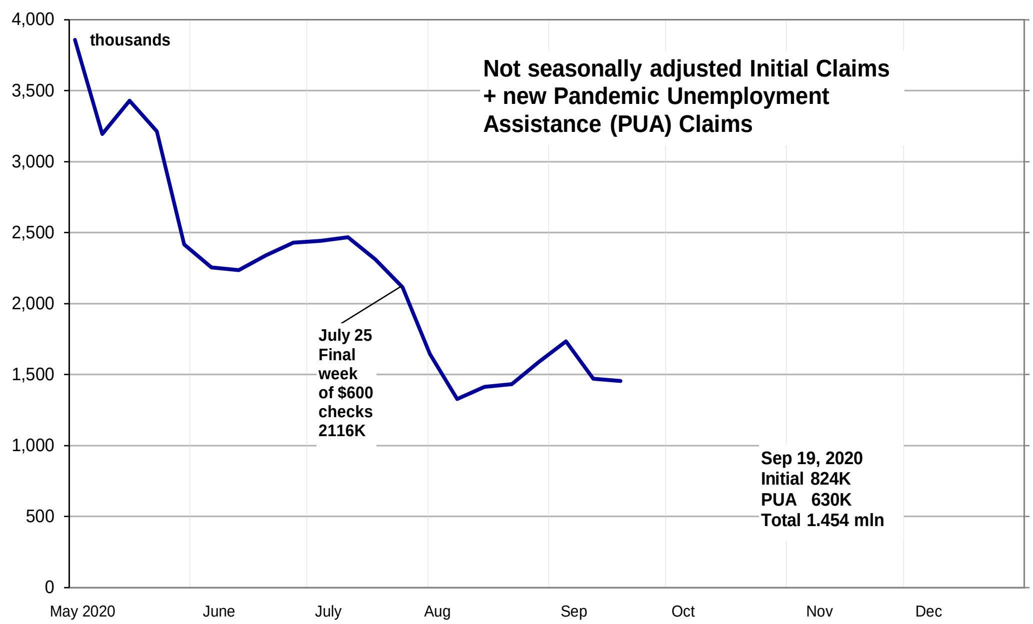
Net, net, the housing market is very strong even accounting for pent-up demand and is one area of the economy that doesn't require additional stimulus from Washington. Home prices continue to move higher in August which is almost unheard of this time of year, as the peak of the summer selling season is June and July in normal times, but make no mistake about it as you work from home today, these are not normal times. You can thank the Fed's massive rate cuts at the start of the pandemic in March, bringing down the cost of borrowing to new lows with mortgage rates under 3%, for making your newly purchased home more affordable. It looks like the Fed's stimulus has set off a new bubble in home prices and, as long as the bubble does not burst again, this is a good thing for the economic outlook as homeowners can tap the rising value of their homes and extract cash by refinancing if they need to. Stay tuned. Story developing. We'd say go out and get a bigger or newer home, but it is probably too late with home prices up double-digits from this time a year ago.



Recession has ended but job losses have not (Thursday)

Breaking economy news. Initial jobless claims rose 870K in the September 19 week and an additional 630K self-employed workers filed for unemployment benefits in a separate Pandemic Unemployment Assistance program. The labor market losses are stunning in that they show there isn't enough work out there yet in the middle of September six months after the Covid-19 virus shut the economy down. The stock market is falling again over the concerns for the economy as well they should because the high-level of joblessness shows that country isn't out of the woods yet and it won't be if the pleading of Fed officials for more stimulus isn't heard by Federal government officials down in Washington.

The overcount if that is what it is of Americans receiving jobless benefits versus the count of unemployed persons from the Bureau of Labor Statistics remains enormous suggesting the claims data are to a degree measuring the number of applications (multiple times from some applicants) as opposed to the actual number of jobless American recipients. There could be fraud as well, but we can’t be sure of the magnitude of false claims. This week however the State of California acknowledged a mistake apparently and cut the number of people receiving the new Pandemic Unemployment Assistance (PUA) in half. The total recipients receiving benefits has a lagged release, but persons claiming PUA were 14.467 million in the August 29 week dropping 2.957 million to 11.510 million in the September 5 week, and the sharp decline was due to California saying their PUA recipient count fell to 3.375 million from 6.387 million. One can imagine what would happen if all states cut the count almost in half. However, the regular state programs still show an additional jobless count of 12.264 million in the September 12 week which looks high as well relative to the BLS count of 13.550 million unemployed behind the 8.4% unemployment rate in August. The puzzle continues.



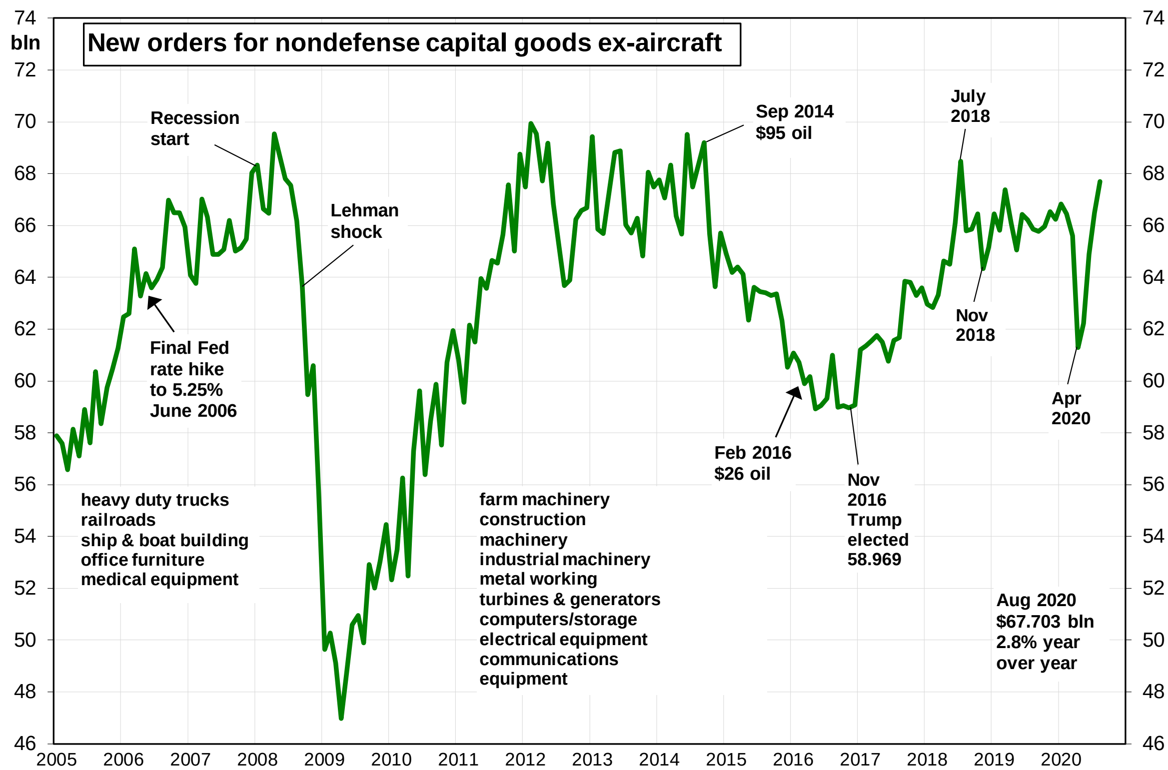
Net, net, many more people are losing their jobs due to the pandemic and you can bet more are coming if the colder weather this fall brings with it a third-wave surge in coronavirus cases. The downturn in production and consumer spending bottomed a few months ago, but new job losses continue to mount each week as there are simply not enough employment positions open for the jobless to fill. The $600 weekly unemployment benefits are gone and the money to fund the $300 weekly checks is half gone and won't be there at all in a matter of weeks. The economy is running on empty as a cautious public isn't spending dollars at shops and malls and restaurants and bars like they used to and growth is set to slow dramatically in the fourth quarter if the Federal government can't act together to support jobless workers and cash-strapped companies that are the heart of the economy. You can't have a sustainable economic recovery with job losses greater than any week of the last recession no matter what Washington officials might wish or hope.

Recession? What recession. Bring on the machines. (Friday)

Breaking economy news. Durable goods report for August. Companies apparently have no qualms at all about the business outlook as they are ordering up a veritable storm of new long-lived equipment with new orders even higher than they were in January and February this year before the start of the pandemic recession in March. What the heck? We thought companies wouldn't even have a dime left to spend after sales plummeted in April the first full month of the economy's pandemic lock down. Not true. Nondefense capital goods orders rose 1.8% in August after gains of 2.5% in July and 4.3% in June. Business capital spending is back and you better pencil in a third quarter real GDP gain of 30% at a minimum when the report is released Thursday, October 29 because both consumers and companies are spending a lot with the only laggard being consumer spending on services that has been affected by the social-distancing rules.

In August there is a long list of durable goods orders in the plus column: machinery 1.5%, computers 3.0%, communications equipment 3.9%, primary metals 1.2%. Motor vehicles and parts fell 4.0%, but after a 21.7% gain in July.

Net, net, new coronavirus cases spreading disease and sickness across the country, and recession-level high unemployment leaving people without the means to support themselves, have done nothing to stop companies from purchasing new equipment in order to produce the goods and services the economy needs in the future. Companies have seen the future and it looks good to them. Orders can always be canceled if the outlook becomes cloudy and gray, but at the moment, the future looks bright for businesses who see no uncertainty at all.



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