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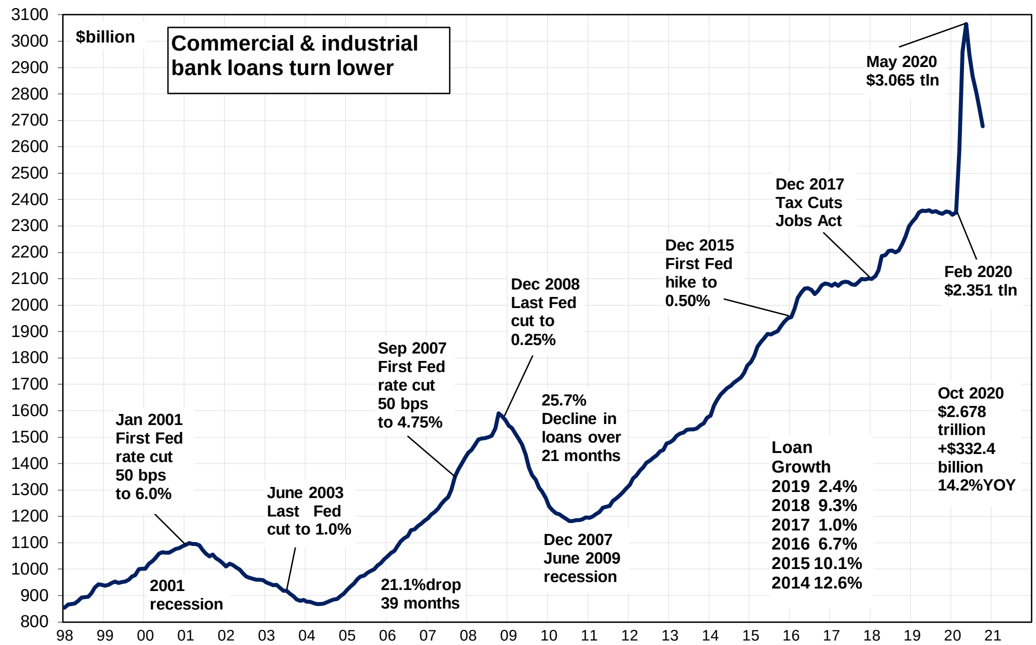
# BANK LOANS HIT THE ROOF DURING THIS PANDEMIC RECESSION

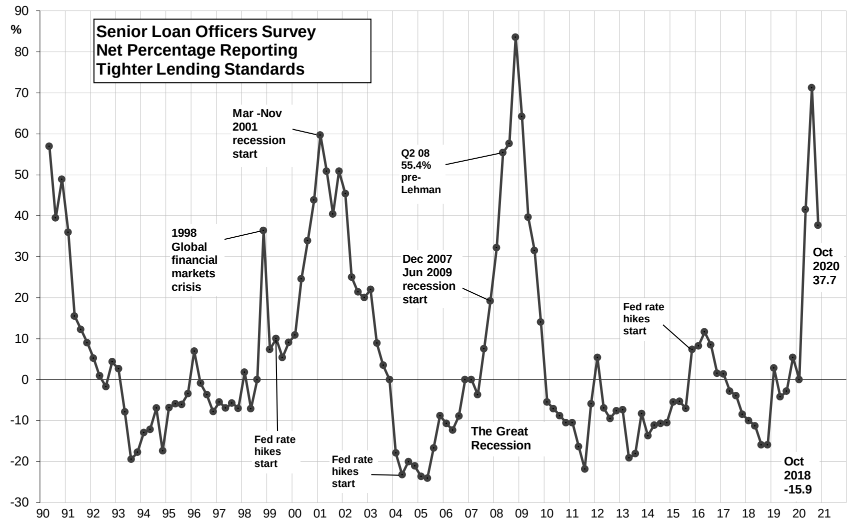



The numbers don't all add up and bank loans have lost any cyclical leading, lagging, coincident economic indicator properties for the broader economy. A decline in commercial & industrial bank loans is usually an indicator of lackluster economic growth where companies' investment spending and needs for working capital are not all that strong during and immediately following recessions. Commercial & industrial bank loans fell 21.1% in the 2001 recession and Iraq War slowdown in 2003. Commercial & industrial bank loans declined 25.7% in the Great Recession. Commercial and industrial loans jumped $714 billion from $2.351 trillion in February 2020 before the pandemic to $3.065 trillion in May 2020, the magnitude of the increase was something the economy had never experienced before looking back over two decades. Large corporations accessed their bank credit lines in the financial panic and the CARES Act (signed into law March 27, 2020) PPP loans also played a big role. Most PPP loans are commercial and industrial bank loans. Starting basically from zero, the Small Business Administration (SBA)

**FDIC Banks and S&Ls**

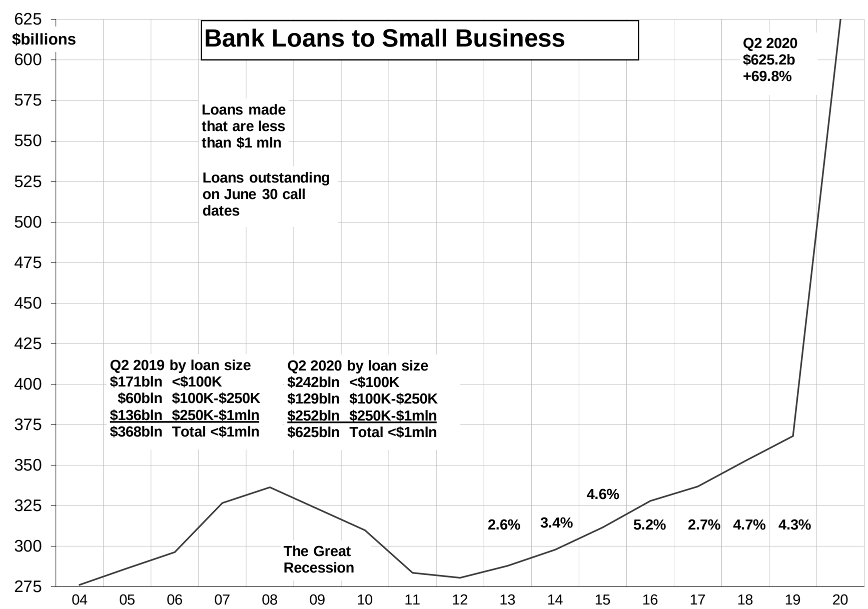
| | 2020 | 2010 | 2000 |
|---|---|---|---|
| Number | 5,066 | 7,830 | 10,102 |
| Employees | 2.077 | 2.034 | 1.904 |
| Deposits | 16.960 | 9.141 | 4.689 |
| C&I loans | 2,689 | 1,165 | 1,062 |
| Credit cards | 808.1 | 692.1 | 234.5 |

5,066 banks in June 2020, 2.077 million employees, $16.960 trillion in deposits, $2.689 trillion C&I loans, $808 billion credit card loans, PPP loans $482.2 billion had $506.5 billion outstanding in the Business Loans Program at the end of June. The FDIC said PPP loans were $482.2 billion at the end of June. It is a good assumption that these loans are going to come down sharply. After using up the money, borrowers are eligible for loan forgiveness if the funds were used for eligible payroll costs, payments on business mortgage interest payments, rent, or utilities.



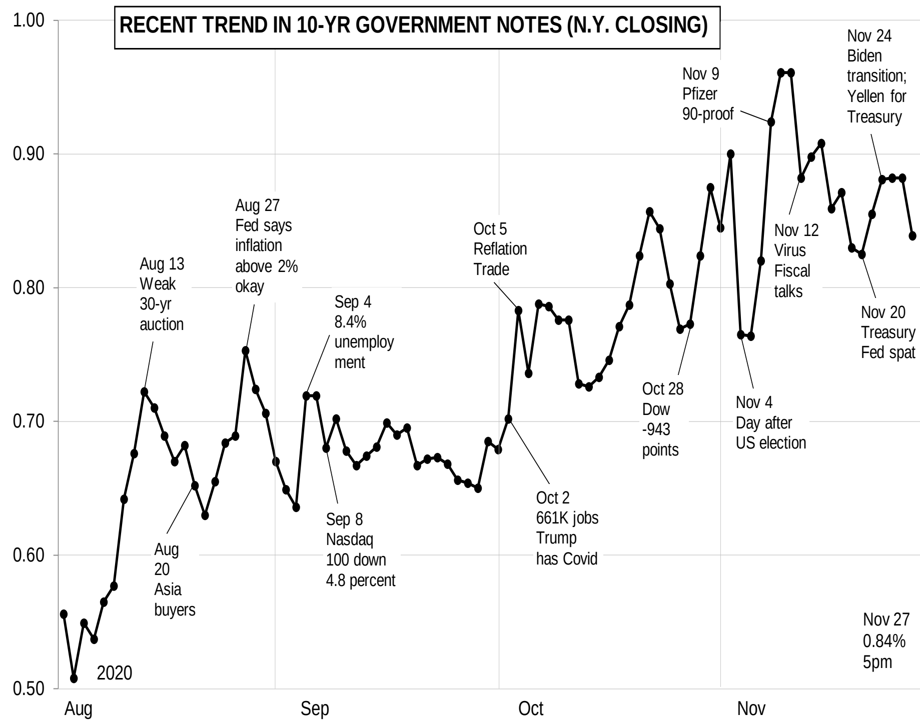

The Fed's Senior Loan Officer Opinion Survey on Bank Lending Practices still shows 37.7 precent tightening lending standards. The Fed's rate hikes starting in December 2015 didn't do much and the net percentage went negative in October 2018 at -15.9. The stock market meltdown in Q4 2018 (14.0% drop in S&P 500), during the Federal government shutdown and trade war, lifted the tighter lending standards back into positive territory and it was still exactly 0.0% in January 2020 this year before the pandemic struck. The October 2020 survey looks at changes in bank lending over the last three months where banks reported tighter standards and terms. Banks said they saw weaker demand for C&I loans. The weakness they said was due to an increase in customers' internally generated funds and a decline in customers' precautionary demand for cash and liquidity. There was a special question on forebearance and a majority said less than 5% of loans were in forebearance which for C&I loans mostly meant covenant relief.

Bank loans to small business in FDIC second quarter data shot up 68.8% or $368.1 billion the last year to $625.2 billion due to PPP loans. Small C&I loans less than $100,000 accounted for a large share of the increase in total outstandings. Fed Chair Powell remains concerned about the state of small and medium-sized businesses. The Paycheck Protection program closed on August 8, 2020. Stay tuned. Story developing.



## MARKETS OUTLOOK

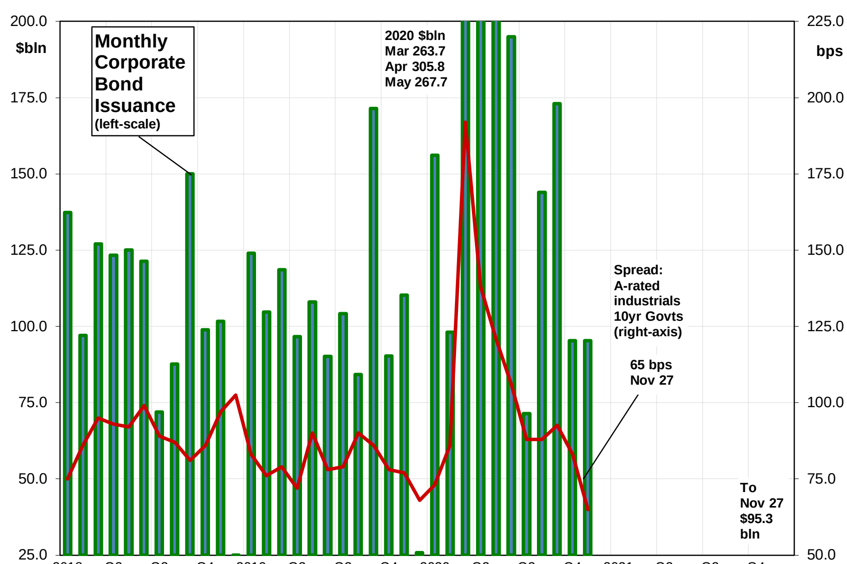
| | 30-Sep 2019 | 31-Dec 2019 | 31-Mar 2020 | 30-Jun 2020 | 30-Sep 2020 | Q4 2020 | Q1 2021 | Q2 2021 | Q3 2021 | Q4 2021 |
|---|---|---|---|---|---|---|---|---|---|---|
| 30-Yr Treasury | 2.11 | 2.39 | 1.32 | 1.41 | 1.46 | 1.40 | 1.40 | 1.50 | 1.60 | 1.70 |
| 10-Yr Note | 1.67 | 1.92 | 0.67 | 0.66 | 0.69 | 0.70 | 0.70 | 0.80 | 0.90 | 1.00 |
| 5-Yr Note | 1.55 | 1.69 | 0.38 | 0.29 | 0.28 | 0.30 | 0.30 | 0.40 | 0.50 | 0.60 |
| 2-Yr Note | 1.62 | 1.57 | 0.25 | 0.15 | 0.13 | 0.20 | 0.20 | 0.20 | 0.30 | 0.30 |
| 3-month Libor | 2.09 | 1.90 | 1.45 | 0.30 | 0.23 | 0.20 | 0.20 | 0.20 | 0.20 | 0.20 |
| Fed Funds Rate | 2.00 | 1.75 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 |
| 2s/10s spread | 5 | 35 | 42 | 51 | 56 | 50 | 50 | 60 | 60 | 70 |




Bond yields closed 0.84% this week after 0.82% last week. This week's third consecutive Monday of positive vaccine news came earlier at 2am ET. AstraZeneca's 70% shot sent 10-yr yields up from 0.83% to as high as 0.86% on Monday. Yields moved up higher on Tuesday on the Monday news that the Biden transition was progressing and that Yellen was expected to become the next Treasury Secretary. On Tuesday, the Dow industrials closed above 30,000 the first time. The actual Yellen news was about 3pm ET Monday, and the GSA ascertains Biden "apparent winner" headlines were 612pm ET. Truth to power or truth be told or something like that the stock market seemed to like Yellen more than than bond market initially. Black Friday sales will they/won't they, less of a market factor this year with Covid stay-at-home sales: yields dropped.

## CORPORATES: BLACKSTONE, PACIFIC LIFE

Corporate bond offerings were $0.4 billion in the November 27 week versus $48.1 billion in the November 20 week. No major issuance in the Thanksgiving holiday week. Corporate bond yields (10-yr Industrials rated A2) were 65 bps above 10-yr Treasuries Friday versus 69 bps last week.



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# FEDERAL RESERVE POLICY

The Fed meets December 15-16, 2020 to consider its monetary policy. No action is expected. They will put out new forecasts as they do every quarter. At the September meeting, 13 Fed officials said the Fed funds rate would still be 0.25% at the end of 2023, 2 said 0.50%, one said 0.75%, and one brave soul said 1.5%. Fed Vice Chair Clarida spoke on Tuesday on the Federal Reserve's New Framework at the IMF Conference on New Policy Frameworks for a "Lower-for-Longer" World so he isn't the 1.5% 2023 forecast.

| Selected Fed assets and liabilities | | | | | Sep 10 |
|---|---|---|---|---|---|
| Fed H.4.1 statistical release | | | | | 2008** |
| billions, Wednesday data | 25-Nov | 18-Nov | 11-Nov | 4-Nov | pre-LEH |
| **Factors adding reserves** | | | | | |
| U.S. Treasury securities | 4606.580 | 4584.423 | 4552.731 | 4538.087 | 479.782 |
| Federal agency debt securities | 2.347 | 2.347 | 2.347 | 2.347 | 0.000 |
| Mortgage-backed securities (MBS) | 2003.592 | 2051.176 | 2000.368 | 2000.324 | 0.000 |
| Repurchase agreements | 1.000 | 1.000 | 1.000 | 1.000 | 126.750 |
| Primary credit (Discount Window) | 2.428 | 2.167 | 2.317 | 2.372 | 23.455 |
| MMLF | 5.192 | 5.242 | 5.496 | 5.504 | |
| PDCF | 0.240 | 0.255 | 0.263 | 0.263 | |
| Commerical Paper Funding Facility | 8.557 | 8.557 | 8.559 | 8.559 | |
| Paycheck Protection Facility | 56.003 | 57.523 | 60.102 | 61.522 | |
| Corporate Credit Facility (CCF) | 45.982 | 45.838 | 45.692 | 45.663 | |
| Municipal Liquidity Facility | 16.555 | 16.554 | 16.553 | 16.552 | |
| Main Street Lending Program | 43.371 | 42.894 | 42.337 | 41.683 | |
| Term Asset-Backed Facility (TALF II) | 12.294 | 12.293 | 12.266 | 12.266 | |
| Central bank liquidity swaps | 7.845 | 7.141 | 8.036 | 7.248 | 62.000 |
| Federal Reserve Assets | 7265.1 | 7291.9 | 7224.2 | 7206.3 | 961.7 |
| 3-month Libor % | 0.23 | 0.22 | 0.22 | 0.23 | 2.82 |
| **Factors draining reserves** | | | | | |
| Currency in circulation | 2066.001 | 2060.288 | 2058.082 | 2050.037 | 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 | 0.000 | 0.103 | 0.000 | 0.000 | 0.000 |
| **Reserve Balances (Net Liquidity)** | 3143.863 | 3033.228 | 2992.098 | 2979.537 | 24.964 |
| Treasuries within 15 days | 78.785 | 84.836 | 71.475 | 92.517 | 14.955 |
| Treasuries 16 to 90 days | 290.750 | 284.427 | 285.323 | 272.111 | 31.549 |
| Treasuries 91 days to 1 year | 668.914 | 664.873 | 642.675 | 633.540 | 69.272 |
| Treasuries over 1-yr to 5 years | 1711.895 | 1700.839 | 1725.831 | 1714.301 | 170.807 |
| Treasuries over 5-yrs to 10 years | 826.697 | 824.797 | 812.450 | 812.404 | 91.863 |
| Treasuries over 10-years | 1029.539 | 1024.651 | 1014.977 | 1013.214 | 101.337 |

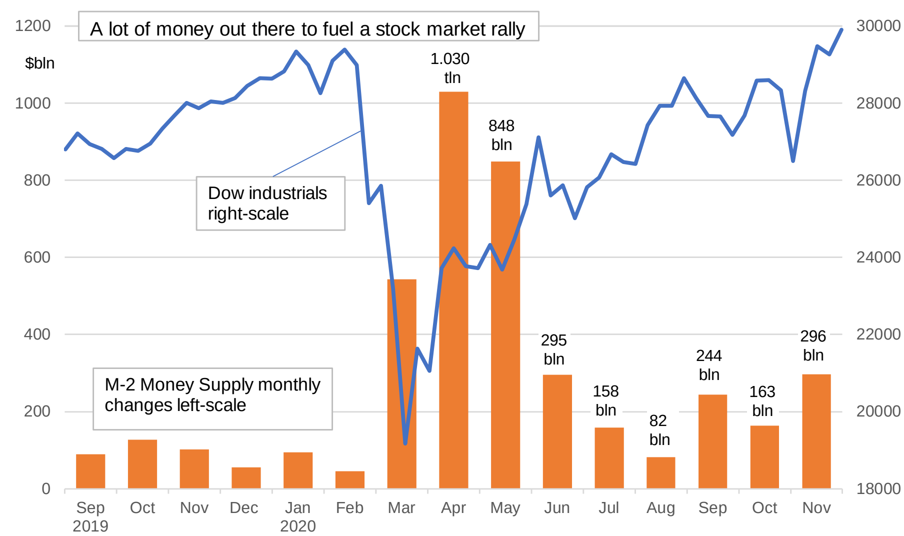
**September 10, 2008 is pre-Lehman bankruptcy of 9-15-08

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)

The November 4-5 FOMC meeting minutes, released on Wednesday at 2pm ET, when people had better things to do, had a very long write up of their discussion on asset purchases. There was a briefing on options from the Fed staff and comments by the FOMC members. One would think the options are pretty cut and dried. Purchases of government securities are $80 billion per month or $960 billion per year. If 10-yr Treasury yields rise to 1.25% maybe think about buying more, but then again it may not work, the extra purchases may not lower 10-yr yields. There was a discussion on changing the mix of purchases where they buy more long-term debt. This was done under Bernanke and it had no effect on interest rates that can be seen with the naked eye. After being criticized by Congress for a dangerous, money-printing expansion of the Fed's balance sheet, Bernanke came up with Operation Twist in September 2011 where they would buy 6-yr to 30-yr Treasuries and sell 3-yr and under Treasuries in order to keep the balance sheet unchanged. The Fed balance sheet was $2.901 trillion when they made the Operation Twist announcement in 2011 and this week it is $7.265 trillion.



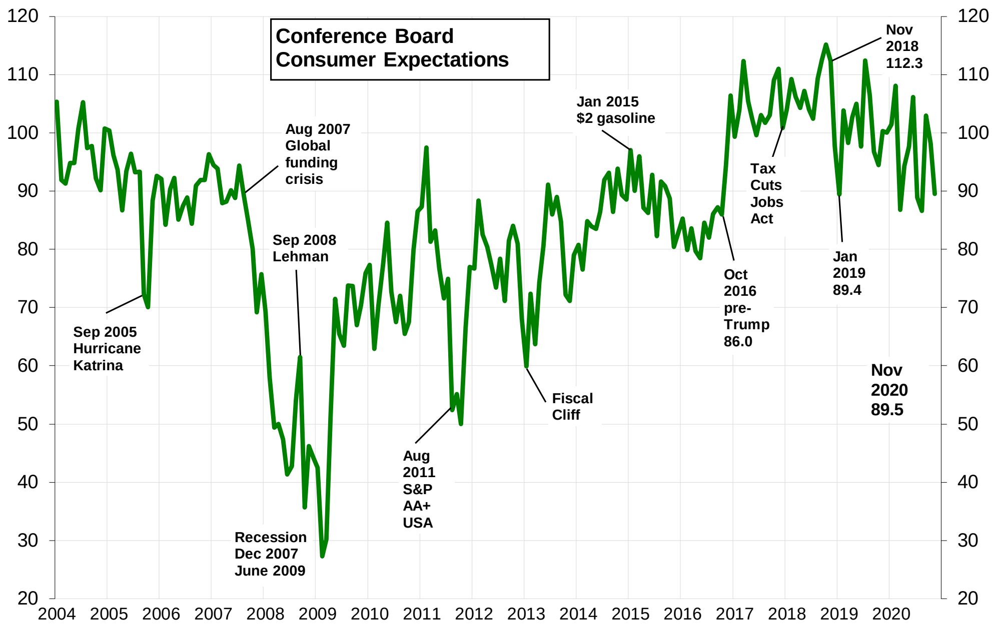

U.S. Treasury New Cash Needs and Fed Treasury Purchases (QE)
Monthly Changes ($ billions)
Fiscal Year (FY) Ending September 2020

| | Q4 2019 | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Total FY 2020 | FY 2021 Oct | Nov | Total FY 2021 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Fed QE | 221.179 | 80.246 | 64.952 | 504.312 | 993.047 | 138.093 | 87.892 | 96.159 | 64.996 | 86.918 | 2,337.8 | 81.709 | 79.394 | 161.1 |
| New Cash | 330.2 | 38.5 | 199.8 | 238.7 | 1368.6 | 699.2 | 685.2 | 102.2 | 175.4 | 176.5 | 4,014.3 | 62.5 | 247.6 | 310.1 |
| Bills | 39.9 | -12.5 | 160.3 | 92.8 | 1344.3 | 628.2 | 449.7 | -0.7 | -2.2 | -47.8 | 2,651.9 | -43.6 | -41.7 | -85.3 |
| Coupons | 290.2 | 51.1 | 39.5 | 145.8 | 24.2 | 71.0 | 235.5 | 102.9 | 177.6 | 224.3 | 1,362.1 | 106.1 | 289.3 | 395.3 |
| Federal Reserve's 11 Lending Facilities | | | 0 | 58.352 | 94.641 | 136.343 | 204.607 | 203.100 | 197.237 | 196.505 | | 193.312 | 188.104 | |
| Central bank liquidity swaps | | | 0.044 | 206.051 | 438.953 | 448.946 | 274.963 | 117.473 | 92.140 | 23.895 | | 6.799 | 7.845 | |

## OTHER ECONOMIC NEWS THIS WEEK

### Consumers aren't as confident and sure don't expect a lot in the future (Tuesday)

Breaking economy news. The consumer confidence index fell 5.3 points to 96.1 in November. Consumers don't expect to be happier in the future either with the consumer expectations index falling 8.7 points to 89.5 in November. We think the sharp rise in positive coronavirus cases nationwide, which has prompted new restrictions and shutdowns in many states, has led consumers to be more fearful of what lies ahead for them and their families as we head into the year-end holiday season.



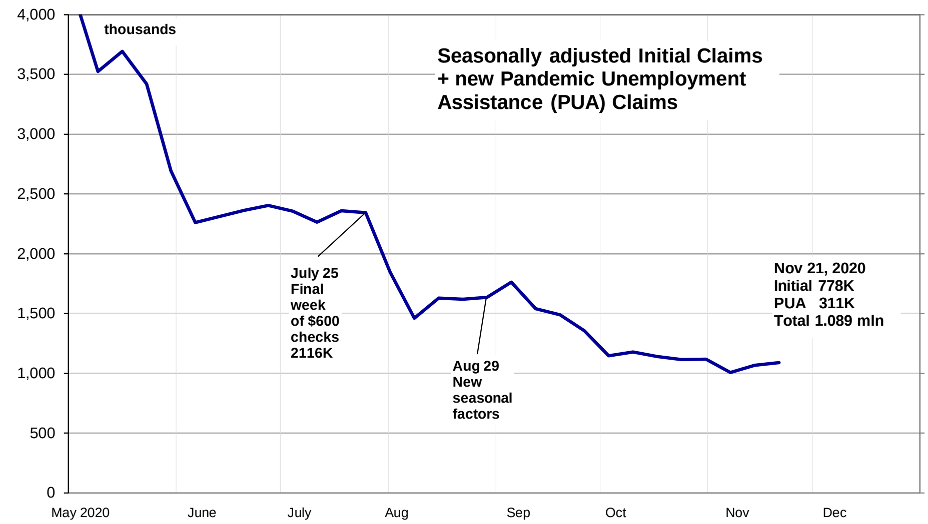

Net, net, consumer expectations have been dashed it looks like this month, but the truth is that the consumer has had volatile temperature readings with wide swings up and down over the course of this unprecedented year. Election uncertainty and a new frightening upswing in the number of virus cases have clearly put the consumer on the back foot here. Those photos of consumers raiding the store shelves and buying up all the necessary lockdown essentials seem to be reflected here in the weaker November consumer confidence data. The consumer is more fearful of what lies ahead and is laying in stores for a long cold winter. The economy is likely to see a boost in consumer spending in the short-term, but the outlook for spending in 2021 remains cloudy and gray.

**How's the labor market doing?**
**Conference Board asks the consumer.**

| Indexes | Nov 20 | Oct 20 | Sep 20 | Aug 20 | Jul 20 |
|---|---|---|---|---|---|
| Confidence | 96.1 | 101.4 | 101.3 | 86.3 | 91.7 |
| Present situation | 105.9 | 106.2 | 98.9 | 85.8 | 95.9 |
| Expectations | 89.5 | 98.2 | 102.9 | 86.6 | 88.9 |
| | | | | | |
| Jobs are: | Nov 20 | Oct 20 | Sep 20 | Aug 20 | Jul 20 |
| Plentiful | 26.7 | 26.7 | 23.6 | 21.4 | 22.3 |
| Not so | 53.8 | 53.7 | 56.1 | 55.0 | 57.6 |
| Hard to get | 19.5 | 19.6 | 20.3 | 23.6 | 20.1 |

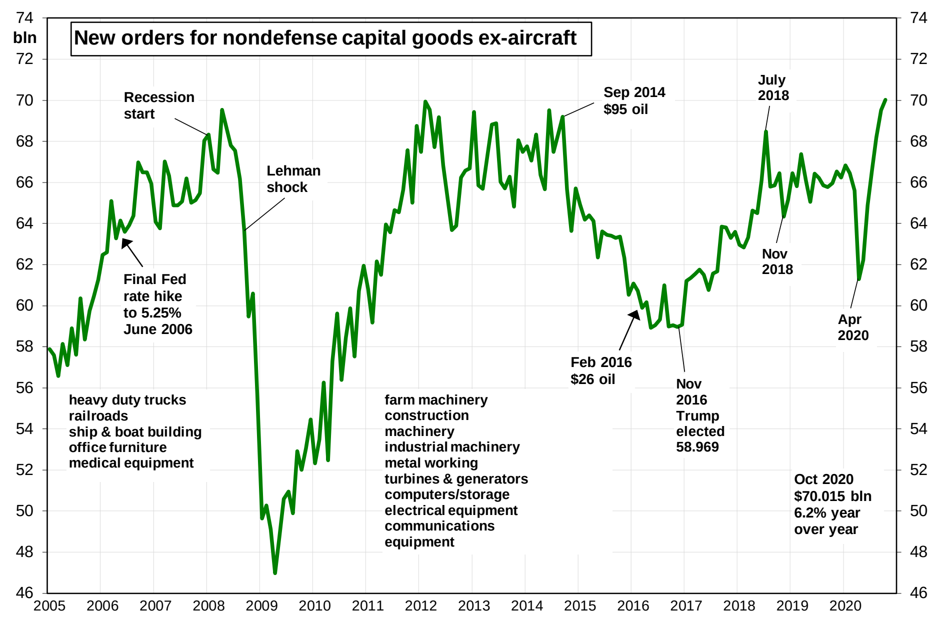
# Haves keep spending what the Have Nots cannot (Wednesday)

Breaking economy news. Jobless claims up 30 thousand to 778 thousand in the November 21 week showing no letup in the number of companies failing and unable to hang on to their employees. This is one of the strangest recoveries from recession in history. There are still 20.452 million getting unemployment benefits in the November 7 week which is a staggering number that continues to defy the official jobless count of 11.061 million behind that 6.9% unemployment rate in October. At this time, it looks like those coming off the regular state unemployment rolls where benefits can't be paid more than six months are simply applying for extended benefits in the Pandemic Unemployment Assistance program.




Meanwhile, companies are clearly not cash-strapped and are planning for a stronger economy next year as they continue to order up new long-lived capital goods equipment to meet the demand for their goods and services. Corporations don't see uncertainty and don't even know there was a recession. There is no other way to explain the 0.7% increase in nondefense capital goods orders ex-aircraft in October which is now the highest level of new orders ever recorded in this country.

Net, net, there is a two-tier recovery from the pandemic recession where the top of society continues to spend as normal while the bottom-half of the country sits in long lines at food banks with the opportunities for employment few and far between. The Haves keep spending what the Have Nots cannot and that is likely to continue despite the spread of the virus.



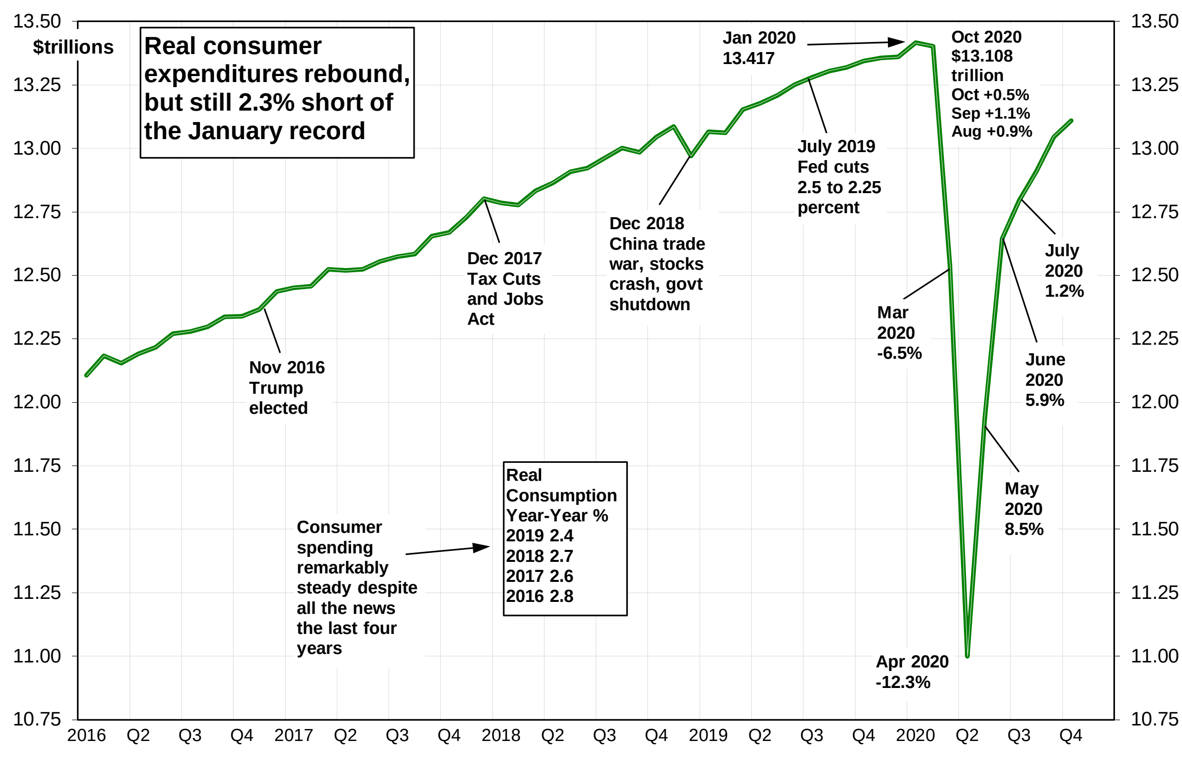
## Consumer out of gas, no income or job, still buying stuff including new homes (Wednesday)

Breaking economy news. The Federal government is shutting down early this week and trying to shove everything out the door before heading to the airport and flying home for Thanksgiving. Personal income report with spending and inflation but no income, and new home sales are out.

Personal income fell 0.7% in October, but don't cry too much for those who still have incomes as it is still higher than it was before the pandemic: personal income is 3.2% higher in October than it was in February after the first round of fiscal stimulus fattening up the consumer's wallet in April this year. Inflation? No inflation in October with 0.0% monthly changes for headline and core PCE inflation. On a year-year basis, headline PCE inflation rose 1.2% and core PCE inflation is 1.4% and showing no sign of moving up to the Fed's wish list 2% inflation rate for this holiday season.

New home sales in October were down slightly to 999 thousand with declines seen in the West and the South and increased sales activity seen in the Northeast and Midwest. New homes sales are up 41.5% from last year at this time. New home prices are not going up as fast as existing home prices. In October, the median price of a new home is $330,600 which is 2.5% higher than last year.

Net, net, the consumer is spending at a fast clip somehow early in the fourth quarter before the new pandemic shutdowns hit. Real consumption expenditures are strong and rising 6.1% through October with November and December left to go. The strongest year for the economy under the Trump administration was 3.0% real GDP in 2018 and real consumer spending rose 2.7% that year, so 6.1% in the fourth quarter of 2020 so far is off the charts. How long is the question if the number of states that are issuing new coronavirus restrictions that limit commerce is growing by the day. Up to this point, the economy is recovering faster than anyone thought with spending robust even if there are millions still out of work and shopping malls around the country are all but closed.



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