



TheECONOMY

What Does a Trough Signal?

The economy contracted at an annualized 32.9%, the worst reading in American history. While such a drop is unprecedented, it was actually better than most economists expected, a shocking representation of how low expectations for U.S. economic activity had fallen. The contraction is likely the trough in this economic cycle with most economic indicators showing that the U.S. is now on the path to recovery. However, economic data should be taken with a grain of salt because the economy has just seen a historic drop in activity that can skew economic surprises to the positive.

Jobs roared back in July with non-farm payrolls adding 1.7 million jobs, but the 10.2% unemployment rate remains starkly above its pre-COVID levels; the economy would have to add back another 12.9 million jobs to reach that level. While jobs are beginning to come back, consumer spending and confidence have yet to show significant improvement as the University of Michigan Consumer Sentiment survey retreated back to April lows after a brief jump in June.

Consumers may still be wary, but business conditions have made a meaningful comeback. Both the manufacturing and service PMIs have solidly moved into expansionary levels and business conditions have made a significant rebound from lockdown lows. The dichotomy between business and consumer conditions shows the challenge of restarting the economy with the ever-present threat of a viral resurgence and just how much it takes for the U.S. to recover from a near-total pause in economic activity.

With Q2 as the trough, market participants have moved to judge the speed of a recovery which looks to be slower on the consumer side than the business side. After all, the 10-year Treasury yield hit an all-time low, .5069% in July, signaling forward expectations still are not rosy.

Treasury Yields

MATURITY	8/7/20	7/6/20	CHANGE
3-Month	0.089%	0.145%	-0.056%
6-Month	0.104%	0.158%	-0.054%
1-Year	0.124%	0.152%	-0.028%
2-Year	0.129%	0.157%	-0.028%
3-Year	0.141%	0.186%	-0.045%
5-Year	0.231%	0.302%	-0.071%
10-Year	0.564%	0.676%	-0.112%
30-Year	1.234%	1.439%	-0.205%

Source: Bloomberg

Agency Yields

MATURITY	8/7/20	7/6/20	CHANGE
3-Month	0.048%	0.112%	-0.064%
6-Month	0.055%	0.200%	-0.145%
1-Year	-0.034%	0.191%	-0.225%
2-Year	0.124%	0.219%	-0.095%
3-Year	0.185%	0.274%	-0.089%
5-Year	0.337%	0.477%	-0.140%

Source: Bloomberg

Commercial Paper Yields (A-1/P-1)

MATURITY	8/7/20	7/6/20	CHANGE
1-Month	0.120%	0.230%	-0.110%
3-Month	0.160%	0.240%	-0.080%
6-Month	0.220%	0.280%	-0.060%
9-Month	0.230%	0.400%	-0.170%

Source: Bloomberg

Current Economic Releases

DATA	PERIOD	VALUE
GDP QoQ	Q2 '20	-32.90%
US Unemployment	Jul '20	10.20%
ISM Manufacturing	Jul '20	54.20
PPI YoY	Jul '20	-1.80%
CPI YoY	Jun '20	1.00%
Fed Funds Target	August 11, 2020	0.00% - 0.25%

Source: Bloomberg