



TheECONOMY

A K-Shaped Economic Recovery

At the onset of the pandemic, many economists predicted an economic recovery in the shape of a V or a U where a steep contraction would be followed by a rapid economic rebound. However, what is unfolding looks more like a K. The upper arm of the K refers to businesses that are thriving, such as the ones tied to technology or that supply basic necessities, and those individuals of greater means and educational attainment that continue to prosper. The lower part of the K refers to businesses that are tied to industries negatively affected by the health crisis such as retail and tourism, including many small businesses, and the lower-wage workers that generally have fewer credentials.

Positively, the U.S. economy continues to see encouraging signs of recovery overall. For instance, consumer spending grew by 1% in August after increasing by 1.5% in July, while the housing market is particularly vibrant as mortgage rates have reached ultra-low levels.

Conversely, job recovery is not as strong as one would have hoped. In March and April, the initial effects of the pandemic and lockdowns cost 22.2 million jobs, and the economy shrank by 31.4% in the second quarter. Luckily, many jobs have come back, but the unemployment rate remains stubbornly high (7.9% for September, down from 8.4% in August).

Going forward, the path and speed of economic recovery remain unpredictable as it depends on the spread of the virus, the efficacy of treatments provided, and the arrival of vaccines for the general public. Further, the gridlock over additional fiscal stimulus measures along with the upcoming presidential election continues to add uncertainty and contribute to market volatility. Fed Chair Jerome Powell recently warned that a lack of additional support for businesses and households disrupted by the pandemic would lead to a weak recovery and hold back wage growth.

Monetary policy is expected to remain highly accommodative for the next few years with the Fed indicating it is “not out of ammo” and will continue to do whatever it can to support the economy as much as possible.

Treasury Yields

MATURITY	10/5/20	9/3/20	CHANGE
3-Month	0.088%	0.099%	-0.012%
6-Month	0.101%	0.112%	-0.010%
1-Year	0.122%	0.112%	0.010%
2-Year	0.145%	0.127%	0.018%
3-Year	0.189%	0.144%	0.045%
5-Year	0.335%	0.248%	0.087%
10-Year	0.782%	0.635%	0.147%
30-Year	1.589%	1.362%	0.228%

Source: Bloomberg

Agency Yields

MATURITY	10/5/20	9/3/20	CHANGE
3-Month	0.100%	0.109%	-0.009%
6-Month	0.118%	0.135%	-0.017%
1-Year	0.121%	0.139%	-0.018%
2-Year	0.185%	0.169%	0.016%
3-Year	0.241%	0.218%	0.023%
5-Year	0.454%	0.400%	0.054%

Source: Bloomberg

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

MATURITY	10/5/20	9/3/20	CHANGE
1-Month	0.110%	0.130%	-0.020%
3-Month	0.160%	0.150%	0.010%
6-Month	0.190%	0.200%	-0.010%
9-Month	0.230%	0.220%	0.010%

Source: Bloomberg

Current Economic Releases

DATA	PERIOD	VALUE
GDP QoQ	Q2 '20	-31.40%
US Unemployment	Sep '20	7.90%
ISM Manufacturing	Sep '20	55.4
PPI YoY	Aug '20	-1.50%
CPI YoY	Aug '20	1.30%
Fed Funds Target	Oct 15, 2020	0.00% - 0.25%

Source: Bloomberg

Data unaudited. Many factors affect performance including changes in market conditions and interest rates and in response to other economic, political, or financial developments. Investment involves risk including the possible loss of principal. No assurance can be given that the performance objectives of a given strategy will be achieved. All comments and discussions presented are purely based on opinion and assumptions, not fact. These assumptions may or may not be correct based on foreseen and unforeseen events. The information presented should not be used in making any investment decisions. This material is not a recommendation to buy, sell, implement, or change any securities or investment strategy, function, or process. Any financial and/or investment decision should be made only after considerable research, consideration, and involvement with an experienced professional engaged for the specific purpose. Past performance is not an indication of future performance. Any financial and/or investment decision may incur losses.