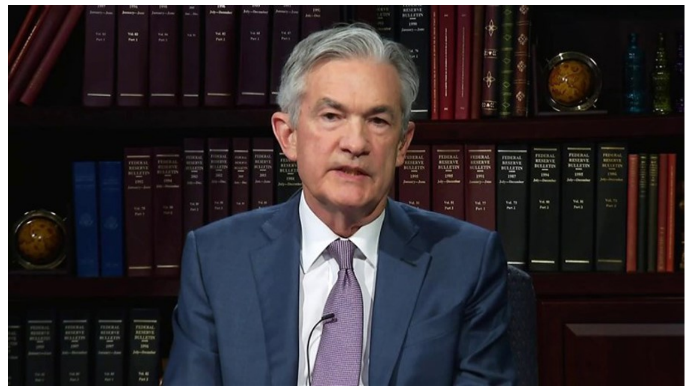
CenterState
CORRESPONDENT DIVISION

Market Update

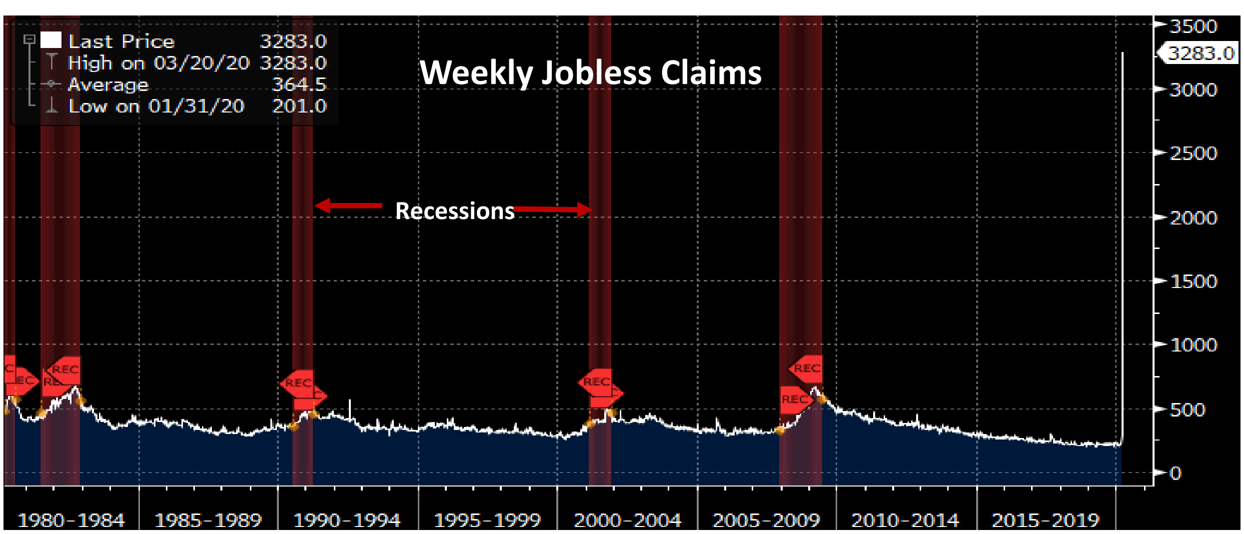
Economic News

March 27, 2020



When the Chairman of the Federal Reserve takes it upon himself to appear on the ever-popular Today Show, you know you're living through unique times, but that's where we find ourselves. The money quote from Powell was "not to worry about the Fed running out of money." That tells you they will be all-in and effectively the buyer of last resort for all the fiscal stimulus borrowing that's coming down the pike. The other rumored quote we found interesting from Powell was in telling Speaker Pelosi to "go big, rates are low" in regards to crafting the stimulus packages. And while the House will approve the third stimulus bill today, Pelosi is expected to unveil a fourth bill at some point in the near future that will likely provide additional assistance to workers. The inflationary impact of all this spending and borrowing remains to be seen, just as it does the eventual hole in the economy that is caused by the fallout from the coronavirus. We look at some forecasts on that in more detail below. This morning, trepidation has returned to the market as case counts and death totals mount which has catalyzed another risk-off mood. Equities are poised to open down 700 plus points while Treasuries benefit from another flight-to-safety trade. The 10-year note is up 31/32nds to yield 0.74%.

- Everyone knew the weekly jobless claims number would be UGLY, the question, however, was two-fold: how ugly would it be, and how would the market react to it? On the first part, claims soared to a new record 3.283 million, easily surpassing the 1.7 million estimate and the previous high of 695,000 set way back in 1982. Even during the financial crisis the highest claims figure was 665,000 in March 2009. So, the expectation that the number would be record-breaking was easily met, and it's possible it could be broken again next week. Surprisingly, the state with the highest claims was Pennsylvania with 378,900, probably due to the shuttering of the fracking industry. Meanwhile, New York state, with the city mired in the worst of the virus outbreak, saw claims rise by 66,000 to 80,000. California claims rose by 129,000 to 186,000. As to the second question, the market was obviously expecting an ugly number, and got it, and that led to a somewhat counterintuitive risk-on move with equities trading higher and fixed income barely hanging onto early gains. That tells us the market was priced for a heavy dose of bad economic news and shrugged off the jobless claims number. It seems, however, we'll need to get some good news on the virus front at some point in the near future in order to hang onto this risk-on bounce. Otherwise, if case counts and deaths continue to accelerate a retest of the lows could well be in the offing.



- Estimates for 2nd quarter GDP are starting to roll in and as one might expect there's still a lot of variability in forecasts given the degree of unknowns, but as the chart below forecasts it will be an ugly number. Morgan Stanley holds the low estimate of –30.1% with the weighted average of 54 contributors at –9.0%, and the mean at –3.2%. When scanning the forecasts it looks like those predicting the largest drops in 2nd quarter GDP are generally expecting a strong bounce in the 3rd quarter. Those with less of a drop in the 2nd also see more of a lower, U-shaped bounce. Given the likely rolling nature of the virus spread in the U.S., we're more inclined to go with the lower U-shaped recovery with a lot still dependent on the extent of the outbreaks yet to come.

95) Chart 96) Histogram Economic Forecasts: Contributors

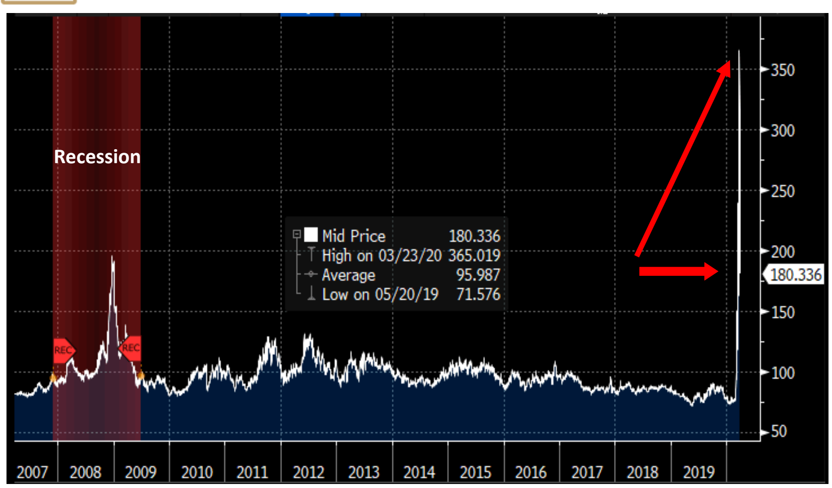
United States Browse Real GDP (QoQ% SAAR) Yearly Quarterly

Q4 19 Actual 2.1 Q4 19 Forecast 2.1

	Q1 20	Q2 20	Q3 20	Q4 20	Q1 21	Q2 21	Q3 21	Q4 21
Median	1.4	-0.1	1.5	2.1	2.2	2.1	2.0	2.5
Mean	0.9	-3.2	2.2	2.4	2.6	2.5	2.3	7.4
Bloomberg Weighted Average	-0.8	-9.0	3.6	3.0	2.7	2.6	2.4	7.3
High	2.4	2.2	29.2	10.0	20.0	21.0	21.0	23.0
Low	-4.5	-30.1	-3.0	-1.8	-0.6	0.0	-2.4	1.5
Responses	53	54	53	53	50	50	47	4
Mar. Survey	1.4	0.1	1.3	2.0	2.1	2.1	2.0	
Feb. Survey	1.5	1.9	2.0	2.0	1.9	2.0	1.9	

Contributors (54)	As of	Q1 20	Q2 20	Q3 20	Q4 20	Q1 21	Q2 21	Q3 21	Q4 21
Bloomberg Economics	03/25/20	0.5	-9.0	1.0	4.0	2.0	2.0	2.0	
TD Bank	03/25/20	-1.9	-27.0	12.8	9.0	6.0	3.5	2.0	
Nordea Markets	03/24/20		-18.4						
Goldman Sachs Group	03/23/20	-0.6	-24.0	12.0	10.0	3.0	3.0	2.5	
UBS	03/23/20	-2.1	-9.5	2.1	6.7	3.7	3.4	4.2	3.1
Barclays	03/20/20	1.5	-7.0	0.0	1.0	2.0	2.0	1.5	
JPMorgan Chase	03/20/20	-4.0	-14.0	8.0	4.0	1.8	1.8		
Morgan Stanley	03/20/20	-2.4	-30.1	29.2	3.3	4.0	3.3		
UniCredit	03/20/20	1.1	-1.5	0.5	1.8	1.5	1.3	1.5	1.9
Bank of America Merrill L...	03/19/20	0.5	-12.0	3.0	4.0				

AAA Muni Yield vs. 10yr Treasury Yield



We've mentioned the rollercoaster ride the muni market has been on this month and wanted to illustrate it again. The graph shows the AAA-rated muni yield versus the 10-year Treasury. This is a widely watched ratio that can inform as to the relative cheapness or richness of municipal securities in relation to Treasuries. The graph goes back 13 years with the average during that time being 96%, that is the muni yield has averaged 96% of the 10yr Treasury. The rapid dislocation in the last few weeks saw that percentage spike to 365% with the counter-rally dropping it down to 180%. That level, while off the panic highs of last week, is still well above the long-term average.

Market Rates

Treasury Curve	Today	Chg Last wk.	LIBOR Rates	Today	Chg Last wk.	FF/Prime	Rate	Swap Rates	Rate
3 Month	-0.09%	-0.07%	1 Mo LIBOR	0.64%	-0.13%	FF Target Rate	0.00%-0.25%	3 Year	0.479%
6 Month	-0.05%	-0.02%	3 Mo LIBOR	1.27%	+0.15%	Prime Rate	3.25%	5 Year	0.532%
2 Year	0.28%	-0.10%	6 Mo LIBOR	1.07%	+0.12%	IOER	0.10%	10 Year	0.681%
10 Year	0.75%	-0.24%	12 Mo LIBOR	0.99%	+0.11%	SOFR	0.01%		

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