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THE ECONOMY AT A GLANCE

ECONOMIC HIGHLIGHTS

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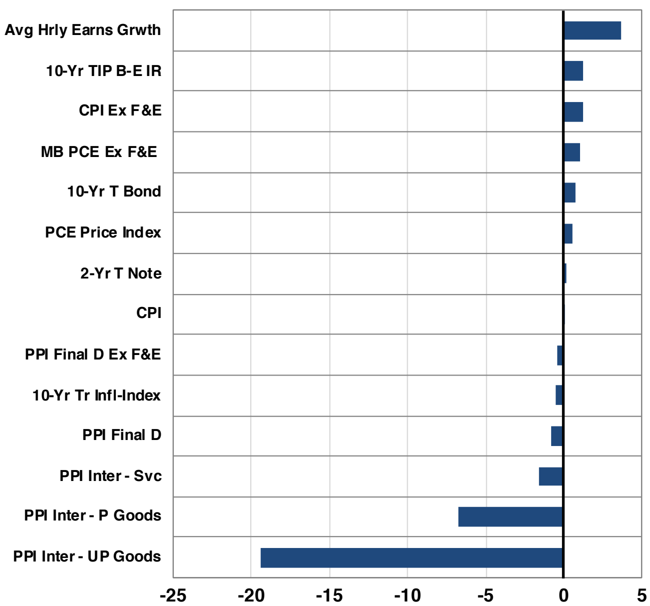
CONSUMER, INDUSTRIAL PRICES DROPPING

The Fed has bigger problems than inflation on its mind. Currently, the central bank is backstopping mortgage markets, money-market mutual funds, small businesses, mid-sized businesses, corporate debt, and some state and local governments. There's probably more, but it's hard to keep track. The total bill? Let's just say the central bank is likely to (at least) double the $4.1 trillion in assets on its balance sheet at year-end 2019. Meanwhile, most inflation measures remain below the Fed's target of 2.0%, and some are even pointing toward deflation. We track 14 inflation measures on a monthly basis. On average, they are indicating that deflation is present, with a reading of -1.5%. If we drop the outlier number from the PPI for unprocessed goods for intermediate demand, the reading is still -0.1% and near the median of 0.1%. Looking at core inflation (which we obtain by averaging core CPI, market-based PCE excluding food & energy, and the 10-year TIPs breakeven interest rate) our reading is 1.1%. With this inflation backdrop, we expect the Fed to keep short-term rates close to zero until at least 2022.

INFLATION MEASURES (% CHANGE Y/Y)



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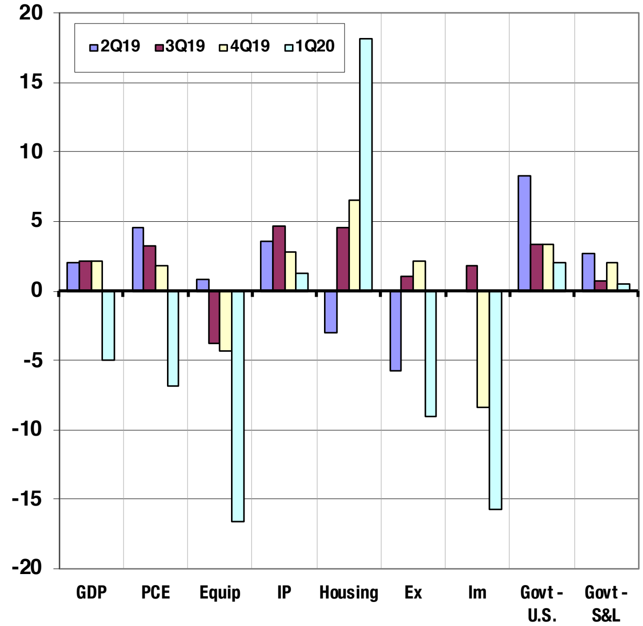
ECONOMIC DATA HITS THE TAPE

The U.S. Department of Commerce announced that its "third estimate" for 1Q20 GDP was negative 5.0%. The report also includes an inflation gauge, the PCE price index. This index, excluding food and energy, increased at a 1.7% pace (below the Federal Reserve's inflation target of 2.0%). These readings were for the first quarter and will get worse in the second quarter. Still, the second quarter should be the bottom as we see it. The recent durable goods report indicated an increase in spending on durable goods by 15.8% in May versus a decline of 17.7% in April. The Commerce Department also reported that the trade deficit in goods widened in May (bad for 2Q GDP) and that wholesale inventories declined (good for 3Q GDP, as inventories are replenished). The U.S. Department of Labor reported that another 1.427 million people filed initial unemployment claims. While still high, the readings generally have been declining from week to week.

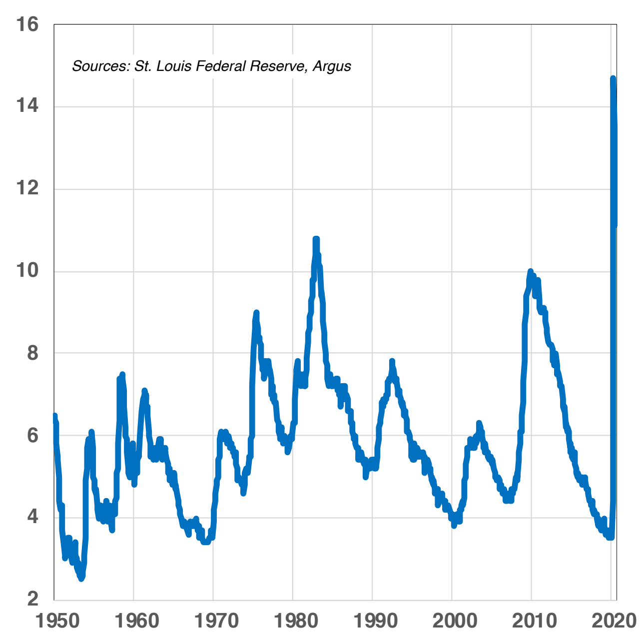
GDP GROWTH DRIVERS (%)



UNEMPLOYMENT RATE DROPS TO 11.1%

The U.S. economy added back 4.8 million jobs in June, as companies continued to return employees to work. The unemployment rate dropped from 13.3% in May to 11.1%. Employment rose sharply in leisure and hospitality (two-fifths of the jobs growth), retail trade and health services -- though employment in these industries remains well below prepandemic levels. Manufacturing (autos) and other services (personal and laundry) also reported growth. The employment data remains murky. The Labor Department also reported that another 1.427 million people filed initial unemployment claims, and continuing claims ticked higher to 19.3 million. The broader U6 unemployment rate, which includes persons marginally attached to the labor force and part-time workers who want full-time jobs, stands at 18%, down from 21.2% last month. We expect the unemployment rate to remain high through 2020 as the U.S. economy slowly recovers. The stock market is already looking ahead to that recovery, though. The 10-year Treasury yield has risen close to 0.7%. We note that the VIX volatility index remains extremely high, and expect volatile trading conditions for the foreseeable future.

U.S. UNEMPLOYMENT RATE (%)



FINANCIAL MARKET HIGHLIGHTS

STOCKS LEAD OUT OF RECESSION

Historically, stock prices have led investors into and out of recession -- and the current recession seems to be fitting the pattern. We looked at the 11 previous U.S. recessions since World War II. First, we measured the changes in stock prices ahead of the recession. During the six months prior to the recession start, we found that the S&P 500 dropped seven times, and on average declined 3%. During the actual recession, stock prices on average were flat, rising six times and falling five times. But during each recession, stocks bottomed out -- sometimes early in the recession, sometimes during the middle, sometimes later -- and then climbed sharply as the recession ended and investors looked to recovery. The average gain in stocks from the bottom of the price trough to the end of the recession was 25%. The current recession is the twelfth since World War II, and started on February 29, 2020. Stock prices were falling into the beginning of the recession, though they had recently been at all-time highs. As of now, the stock-price bottom was established on March 20, 2020. Since then, stock prices have climbed 32% as optimistic investors look ahead.

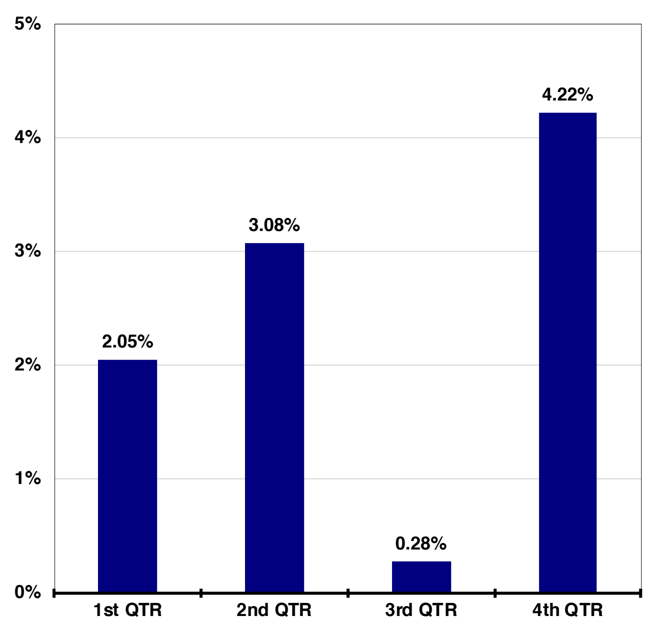
STOCK PRICES & RECESSIONS

Stocks 1- to 6-Mos. Prior to Recession	Recession Start	S&P 500 Low Date	Recession End Date	S&P 500 Change During Recession	S&P 500 Low Price	S&P 500 Recession End Price	Gain from Bottom to Recession End
-12%	11/30/48	6/14/49	10/31/49	9%	13.6	16.0	18%
-6%	7/31/53	9/15/53	5/31/54	18%	22.9	29.2	27%
5%	8/31/57	10/22/57	4/30/58	-4%	39.0	43.4	11%
-5%	4/30/60	10/25/60	2/28/61	17%	52.2	63.4	22%
-6%	12/31/69	5/26/70	11/30/70	-5%	69.3	87.2	26%
-9%	11/30/73	10/3/74	3/31/75	-13%	62.3	83.4	34%
10%	1/31/80	3/27/80	7/31/80	7%	98.2	121.7	24%
1%	7/31/81	8/12/82	11/30/82	6%	102.4	138.5	35%
8%	7/31/90	10/11/90	3/31/91	5%	295.5	375.2	27%
-19%	3/31/01	9/21/01	11/30/01	-2%	965.8	1139.5	18%
-2%	12/31/07	3/9/09	6/30/09	-37%	676.5	919.0	36%
1%	2/29/20	3/20/20	????	????	2304.9	????	????

INVESTORS BEWARE, 3Q IS HERE

Investors have endured a turbulent first half, with an 18% gain in 2Q almost offsetting a 20% decline in 1Q. The historical record offers a challenging outlook. By our calculations, 3Q performance has been underwhelming compared to 1Q, 2Q and 4Q returns. To draw this conclusion, we analyzed data on S&P 500 performance from 1980 to 2020. The strongest quarter has been 4Q, which has generated average gains of 4.2%. Returns in 1Q and 2Q have averaged 2.1% and 3.1%, respectively. The third quarter is barely positive, with an average return of 0.3%. Not every 3Q is a disaster. In fact, the "win percentage" for the quarter is 63%; this means that stocks deliver positive returns in the quarter more than three-fifths of the time. But the actual quarters that are negative really hurt: -12% in 1981, -15% in 1990, -15% in 2000, -18% in 2001, -14% in 2008 and -14% in 2011. Some of the events that occurred in these quarters are random: the September 11 attacks in 2001; the Lehman bankruptcy in 2008; and the S&P U.S. Treasury downgrade in 2011. But 3Q is also when companies have a better view about their earnings for the year. This year, the presidential campaign will also be heating up as the election nears.

AVERAGE QUARTERLY STOCK MARKET APPRECIATION



ECONOMIC CALENDAR

Previous Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
6-Jul	ISM Non-Manufacturing Index	June	45.4	49.5	50.2	57.1
8-Jul	Consumer Credit	May	-70.10	-20.00	-15.00	-18.28
10-Jul	Producer Price Index	June	0.4%	0.2%	0.4%	NA
	PPI ex-Food & Energy	June	-0.1%	0.0%	0.1%	NA

Next Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
22-Jul	Existing Home Sales	June	3.91m	NA	NA	NA
23-Jul	Leading Economic Indicators	June	2.8%	NA	NA	NA

** Preliminary*
*** Final*
^Final