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THE ECONOMY AT A GLANCE

ECONOMIC HIGHLIGHTS

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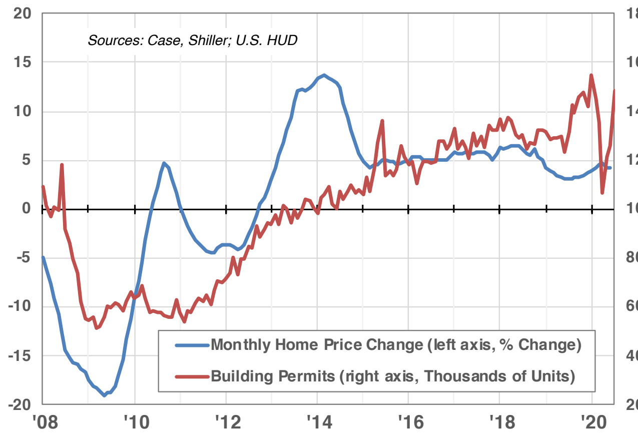
HIGH DEMAND, LOW SUPPLY IN HOUSING

The housing market is starting to rebound after an initial slump related to the pandemic. Building permits, a leading indicator for the industry, peaked in January at 1.55 million units and are now down 4% through June. But they are up 39% from April. Existing home sales, which were down 32% in May from January, have started to rise as stay-at-home orders have been lifted; they were up 25% month-to-month in July. Prices have held up, so far. Data for June 2020 showed that prices rose 4.3% year-over-year, up from a rate of 3.9% in January. Meanwhile, inventory levels are tight. We think that on the other side of the pandemic, demand for homes -- with yards between neighbors and no elevator buttons to press -- will remain strong.

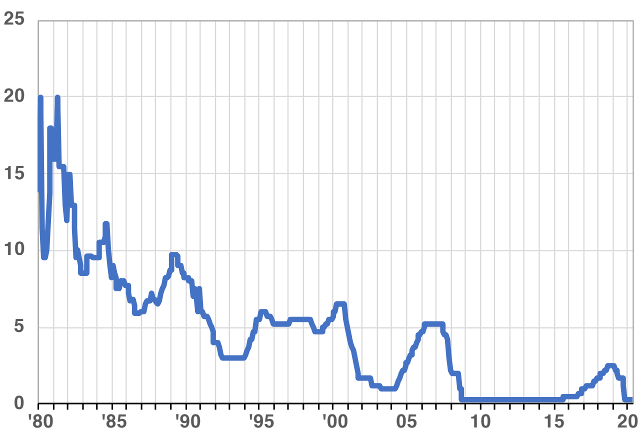
HOUSING MARKET TRENDS



RATES VERY LOW FOR VERY LONG

The Fed intends to keep interest rates at 0.00%-0.25% through 2023 and to keep rates low until "inflation has risen to two percent and is on track to moderately exceed two percent for some time." But that doesn't mean the central bank won't be busy. The Fed will leave intact all of its funding programs through the end of the year and extend repo operations and dollar liquidity swaps through March 2021. The central bank will also continue to purchase large amounts of U.S. Treasuries and agency mortgage-backed securities, effectively "controlling" longer-term rates. One thing we don't expect the Fed to do is lower interest rates below zero. Although that strategy has been tried in some countries, it is not clear to Chairman Powell that the tool works.

FEDERAL FUNDS TARGET RATE (%)



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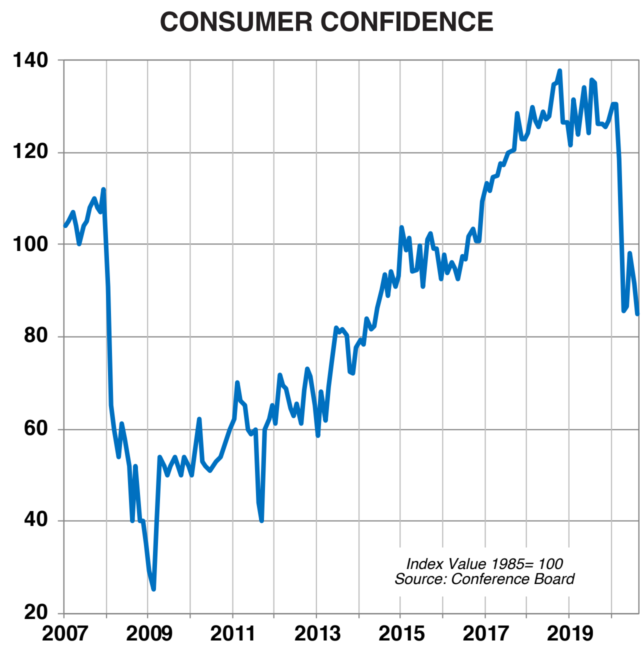
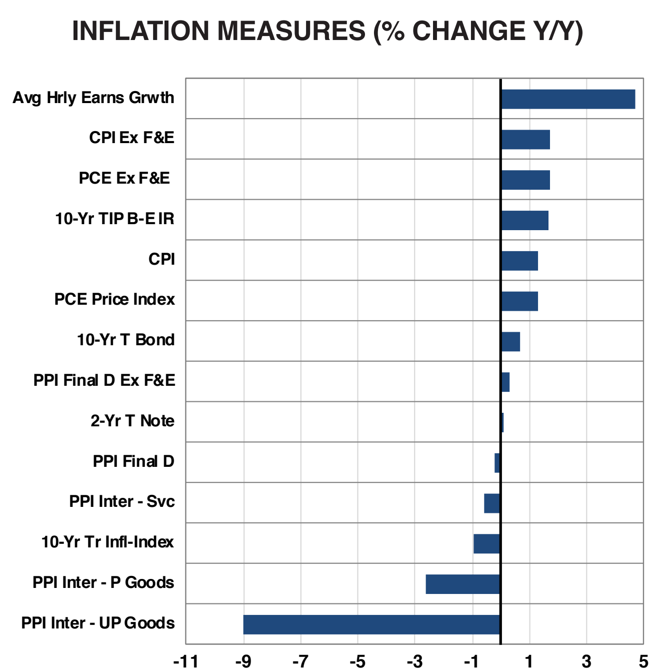
CONSUMER CONFIDENCE STILL UNDER PRESSURE

Consumer confidence fell off the table in April after the U.S. shut down; stabilized through June as states re-opened; and then plunged in August as COVID-19 again swept the country. Have we seen the lows? That's hard to say. It is worth looking back at the experience during the financial crisis in 2007-2009. Back in 2007, confidence peaked at 112 in November before falling sharply and consistently over the next year to a low of 25 in February 2009 (as the bear market was bottoming). The index did not reclaim prior highs for another eight years. This time around, the Consumer Confidence Index has fallen "only" from 130 in February to 85 in August. The slope and speed of the recovery trajectory will depend on several factors: the slowing of the spread of the virus, the effectiveness of any second rescue plan from the government, and any behavioral changes among consumers on the other side of the crisis. From an investment standpoint, we have found that the bottom of the consumer confidence cycle -- when everybody has given up on a recovery -- has been a good time to buy stocks.



INFLATION TICKS HIGHER

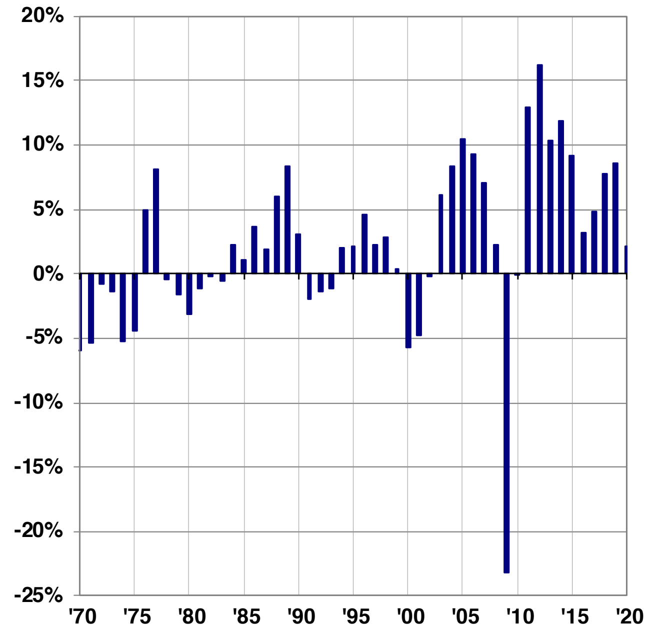
Core prices are starting to increase, though we don't think the U.S. Federal Reserve is too worried. Currently, the central bank is busy backstopping mortgage markets, money-market mutual funds, small businesses, mid-sized businesses, corporate debt, and some state and local governments. The total bill? Let's just say it's likely the central bank will more than double the $4.1 trillion in assets that were on its balance sheet at year-end 2019 (the current total is $7.1 trillion). Meanwhile, most inflation measures remain below the Fed's target of 2.0%, though on average they are up month-over-month. We track 14 inflation measures on a monthly basis. On average, they indicate that prices are rising at a 0.1% rate, ahead of last month's reading, which was deflationary at -0.8%. Looking at core inflation -- which we obtain by averaging Core CPI, market-based PCE Ex-Food & Energy, and the 10-year TIPs Breakeven Interest Rate -- our reading is 1.7%, up slightly from 1.4% last month (but still low). With this inflation backdrop, we expect the Fed will focus on other issues and keep short-term rates close to zero until at least 2022.



THREE SIGNALS FROM DIVIDEND GROWTH

Dividend growth is among our most important themes for 2020. We think companies that consistently raise dividends at a double-digit rate are sending three important signals amid market volatility: the company's balance sheet is strong enough to pay a dividend; management is focused on providing shareholder returns; and management is confident enough in the near term to raise the payout aggressively. This third factor is especially important during a pandemic. On average, the dividends of S&P 500 companies have grown 2.1% per year since 1970. The dividend growth rate was negative during economic slowdowns in the early 1970s and 1980s and 1990s, and during the bear markets of 2000, 2008 and 2009. On the other side of the spectrum, double-digit dividend growth is rare. The average dividend growth rate been 10% or above in only five of the past 43 years. Dividend growth accelerated in 2019, which was a good year for stocks as trade tensions gradually diminished and the Fed took a dovish stance on interest rates. We estimate that S&P 500 dividends grew by 9%. Dividend growth is widely expected to slow over the next two years due to the pandemic and global recession.

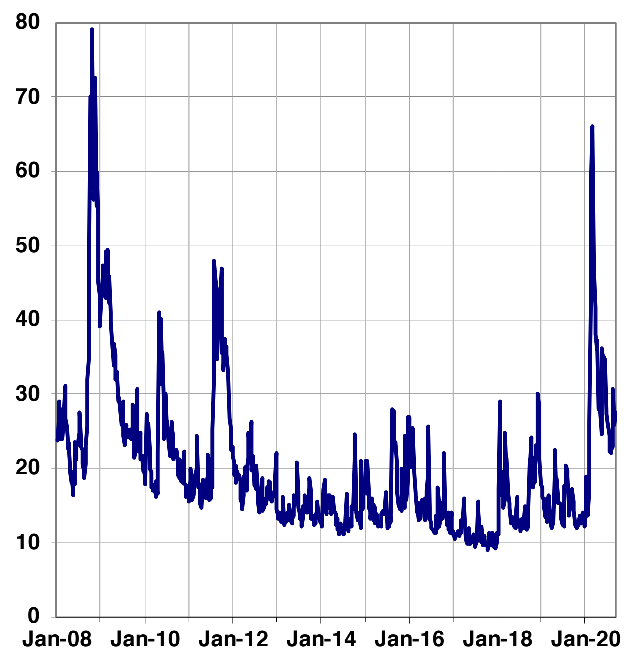
S&P 500 ANNUAL DIVIDEND GROWTH



HIGH VOLATILITY RETURNS

At the end of August, economists were anticipating a sharp recovery in GDP, analysts were convinced they had seen the worst of the earnings decline, and headlines touted COVID-19 vaccine developments. Investors, who look ahead, lifted equity indices to all-time highs. But at those highs, stocks were priced for perfection and not for disappointment, which is what September has delivered. The month began as students headed back to school. The lack of a nationwide COVID-19 testing program quickly became apparent, and new hotspots emerged across the country. Meanwhile, politicians were pushing for a fast-track vaccine and scientists were pushing back to ensure safety. What looked like a 4Q20 solution now may be a summer 2021 solution. The nation's political machinery moved into high "election gear" and an already tense political environment ratcheted higher after the death of Ruth Bader Ginsberg. As investors have sold shares in September, the VIX Volatility Index has started to climb again. We expect elevated levels at least into November. In this environment, we recommend that investors focus on high-quality companies, with strong balance sheets and experienced management.

VOLATILITY INDEX (WEEKLY CLOSE)



ECONOMIC CALENDAR

Previous Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
29-Sep	Wholesale Inventories	August	-0.3%	-0.1%	-0.1%	NA
	Consumer Confidence	September	84.8	90.0	90.5	NA
30-Sep	Real GDP	2Q	-31.7%	-31.0%	-31.6%	NA
	GDP Price Index	2Q	-2.0%	-2.0%	-2.0%	NA
	Chicago PMI	September	51.2	51.5	51.9	NA
1-Oct	Personal Income	August	0.4%	-2.0%	-2.6%	NA
	Personal Spending	August	1.9%	1.0%	0.8%	NA
	ISM Manufacturing	September	56.0%	55.5%	55.5%	NA
	Construction Spending	August	0.1%	0.5%	0.7%	NA
2-Oct	Factory Orders	August	6.4%	2.0%	1.5%	NA
	Non-farm Payrolls	September	1371000	865000	865000	NA
	Manufacturing Payrolls	September	29000	50000	50000	NA
	Average Weekly Hours	September	34.6	34.6	34.6	NA
	Average Hourly Earnings	September	0.4%	0.2%	0.2%	NA
	Unemployment Rate	September	8.4%	8.5%	8.2%	NA

Next Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
13-Oct	Consumer Price Index	September	0.4%	NA	NA	NA
	CPI ex-Food & Energy	September	0.4%	NA	NA	NA
14-Oct	PPI Final Demand	September	0.3%	NA	NA	NA
	PPI ex-Food & Energy	September	0.4%	NA	NA	NA
15-Oct	Import Price Index	September	0.7%	NA	NA	NA
	Empire Manufacturing	Ocotber	17.0	NA	NA	NA
	Philadelphia Fed BOS	Ocotber	15.0	NA	NA	NA
16-Oct	Retail Sales	September	0.6%	NA	NA	NA
	Retail Sales ex-Autos	September	0.7%	NA	NA	NA
	Business Inventories	August	0.1%	NA	NA	NA
	Industrial Production	September	0.4%	NA	NA	NA
	Capacity Utilization	September	71.4%	NA	NA	NA
	U. of Michigan Sentiment	October	78.9	NA	NA	NA