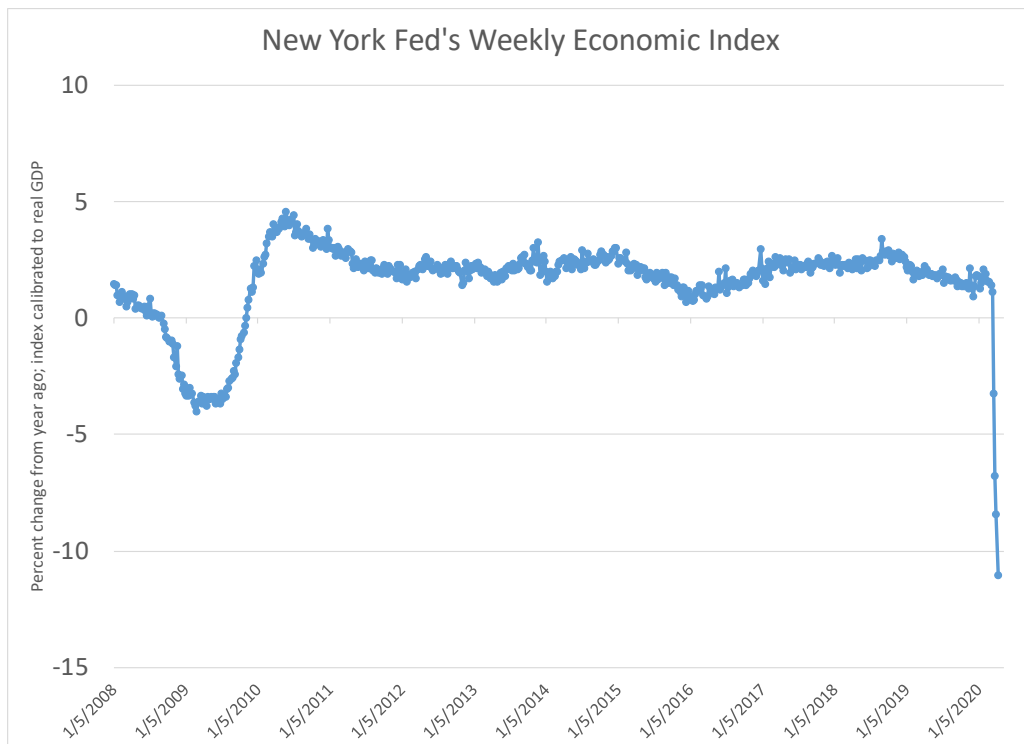


# COMMENTS ON THE ECONOMY AND FINANCIAL MARKETS, BY BILL EMMONS APRIL 17, 2020

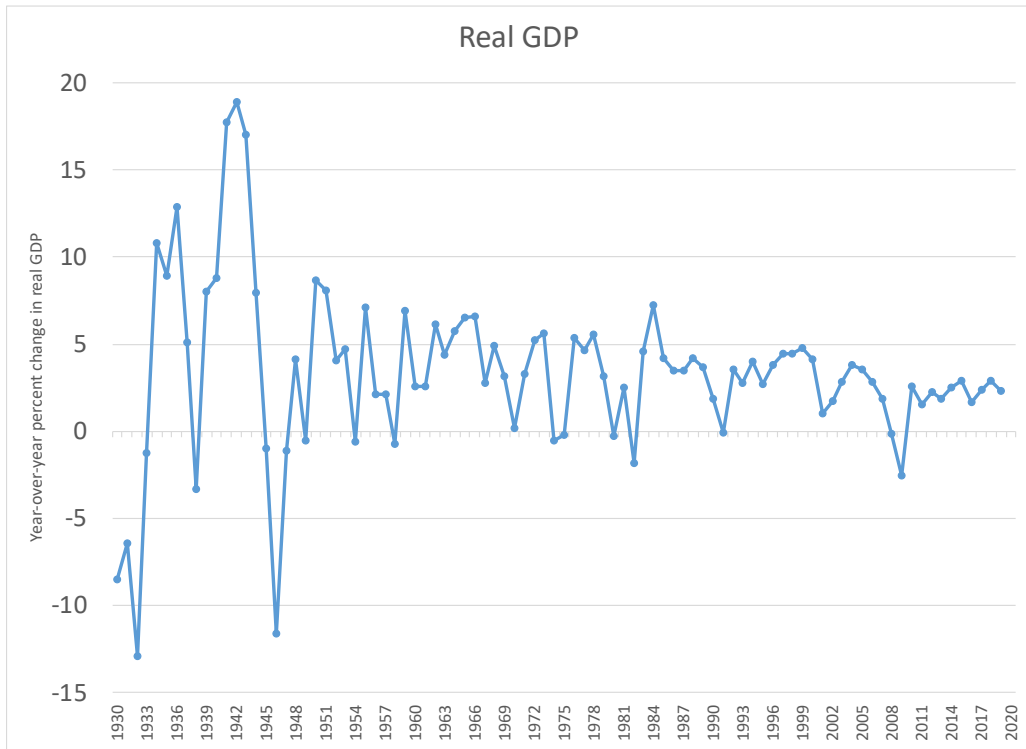
- **The economy and policy objectives**
  - **The US and global economies are still shutting down.**
    - As President Jim Bullard has described it, we are shutting down part of the economy in order to invest in public health.
    - The shut-down began spontaneously in early March, before government shelter-in-place orders were issued in late March.
    - The latest data suggest the shutdown is not complete—as of last week, there was a large flow of 5.5 million workers into unemployment; businesses are closing.
    - The NY Fed’s weekly economic index shows a sharper contraction in economic activity as of last week than during the worst of the Great Recession (2008-09). (See Figure 1.)
    - The current contraction (so far) is closer in magnitude to the demobilization after WWII (1945-46) and the banking panic during the Great Depression (1932-33). (See Figure 2.)

Figure 1



Source: Federal Reserve Bank of New York, <https://libertystreeteconomics.newyorkfed.org/2020/03/monitoring-real-activity-in-real-time-the-weekly-economic-index.html>. See the Appendix for a description of the data series used to calculate the index.

Figure 2



Source: Bureau of Economic Analysis

- **Policy objectives**
  - The shelter-in-place orders are intended to be partial, in order to accommodate essential activities while the disease is being isolated.
  - The orders are intended to be temporary and are likely to be more effective and shorter in duration the greater is public compliance with the orders.
  - The monetary-policy objective of the Fed and the fiscal-policy objective of federal government is the same--to maintain the viability of the economy while it is in a so-called "medically induced coma."

- **Financial markets**

- Financial-market functioning appears to be getting back to normal.
  - Bid-ask spreads have come back in.
  - Credit spreads are elevated but make sense, given the uncertain economic outlook. (See Figure 3.)
- Stock market is optimistic—SP500 is up 27% since Mar. 23 low.
- **Commodity markets**

|                          | Corn | Soybeans | Wheat | Rice | Live cattle | Lean hogs | Cotton | Copper | Gold | Ethanol | Oil (WTI) | Oil (Brent) | Wholesale gasoline | Natural gas |
|--------------------------|------|----------|-------|------|-------------|-----------|--------|--------|------|---------|-----------|-------------|--------------------|-------------|
| % change, Feb. 3-Apr. 16 | -16  | -5       | -5    | 6    | -22         | -34       | -21    | -8     | 9    | -29     | -60       | -49         | -52                | -7          |

Daily data through Apr. 16, 2020

- **Stock markets**

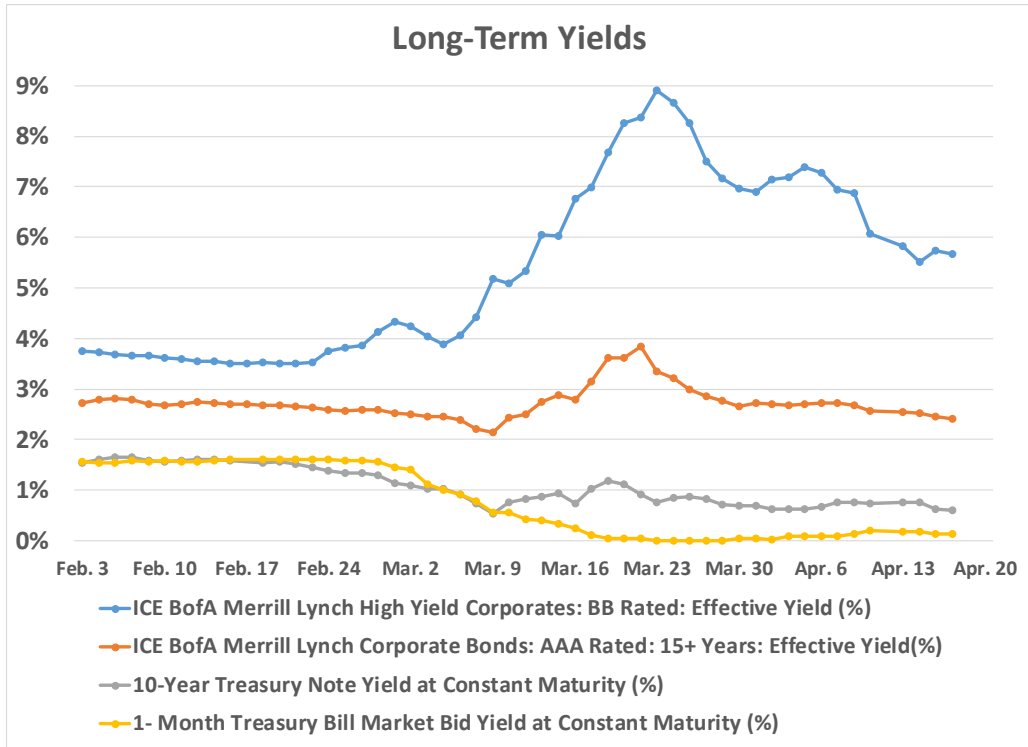
|                          | S&P 100 | S&P 500 | S&P Industrials | S&P Financials - GICs | S&P 400 Midcap | S&P 600 Smallcap | DJGI World |
|--------------------------|---------|---------|-----------------|-----------------------|----------------|------------------|------------|
| % change, Feb. 3-Apr. 16 | -11     | -14     | -11             | -29                   | -26            | -30              | -20        |

Daily data through Apr. 16, 2020

- **Summary comments**

- We may “bend the curve” soon in terms of economic deterioration—things are getting worse at a decreasing rate!
- The economy will be operating at a much-reduced level for weeks or months.
- We do not know when or how to re-open the economy or how fast to go.
- The economic outlook is fundamentally uncertain.
- Financial markets already have stabilized in terms of normal functioning.
- The stock market and some commodity markets are somewhat optimistic.
- Energy and bond markets remain pessimistic.
- **My expectation: Many economic surprises lie ahead; prepare for more volatility.**

Figure 3



Source: Haver Analytics; Daily data through Apr. 16, 2020

## APPENDIX

| <b>Data Series Employed in the WEI</b>                                                                                   |                                                                                                                                         |
|--------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------|
|                                                                                                                          | Description                                                                                                                             |
| Redbook Research: Same-store retail sales average                                                                        | Measures year-over-year same-store sales growth for around 9,000 general merchandise stores in the United States                        |
| Unemployment insurance: Initial claims                                                                                   | Reports the number of people making new unemployment insurance claims from state unemployment offices                                   |
| Unemployment insurance: Continuing claims                                                                                | Reports the number of people making unemployment insurance claims for a continuing spell of unemployment from state unemployment office |
| American Staffing Association Staffing Index                                                                             | Tracks temporary and contract employment with data coming from a large panel of staffing companies                                      |
| Rasmussen Consumer Index                                                                                                 | Constructed with a daily survey of 1,500 American adults using questions about personal finances and the economy more broadly           |
| Raw steel production (from American Iron and Steel Institute)                                                            | Estimates the weekly production of raw steel from domestic producers                                                                    |
| Electric utility output: United States ex. Hawaii and Alaska (from Edison Electric Institute)                            | Measures electricity output for the United States excluding Alaska and Hawaii                                                           |
| U.S. fuel sales to end users (our calculations based on underlying data from the U.S. Energy Information Administration) | Estimates gasoline, diesel, and jet fuel sales to retailers and end users                                                               |
| U.S. railroad traffic                                                                                                    | Tracks total freight transported as reported by railroad companies to the Association of American Railroads                             |
| Federal withholding tax collections (Booth Financial Consulting)                                                         | Measures Treasury receipts of income and payroll taxes withheld from paychecks, filtered and adjusted for policy changes                |

Source: Federal Reserve Bank of New York, <https://libertystreeteconomics.newyorkfed.org/2020/03/monitoring-real-activity-in-real-time-the-weekly-economic-index.html>.