**Bill’s Comments on the Economy and Financial Markets**

**April 3, 2020**

- **The national economy**
  - Today’s employment report was the worst since Jan. 1975 (45 years ago)
    - Month-over-month increase in unemployment rate of 0.9 ppts, from 3.5% to 4.4%
      - Prior to 1975, worst one-month change was Dec. 1953 (67 years ago)
      - Month-over-month decrease in nonfarm payroll employment of 700,000
  - Next month’s employment report could be 10 times worse than this
    - Survey date is the 12th of each month (or week containing the 12th)
    - Unemployment rate could go up to 10% or more, matching Great Recession peak
    - Month-over-month job loss could be 10 million
  - Without the CARES act and other government interventions...
    - We would be heading into another Great Depression
    - What if we called off the virus-suppression measures that are strangling the economy?
      - We really don’t know the answer—we’ve never confronted anything like this.
      - My reading of the evidence and arguments is that it would likely delay but not eliminate the risk of another Great Depression.
      - Until we’re able to manage the virus, our economy is in severe danger.

- **Eighth-District economies**
  - Relevant 8th-District data will become available later this month
    - As of February, we were still growing (for what that’s worth now!)
      - Our state economies track the nation pretty closely so expect bad reports here, too
  - There is a chance that some of our states may be out of synch with the national economy (trailing behind) if the virus hits us at different times
Money markets
- Fed interventions have made a big difference, but markets are still not functioning smoothly
  - Flight-to-safety pressures remain strong, favoring Treasury market over other fixed income

<table>
<thead>
<tr>
<th>Money market</th>
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<tbody>
<tr>
<td>2%</td>
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<tr>
<td>1%</td>
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<tr>
<td>0%</td>
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Daily data through Apr. 2, 2020
• **Long-term interest-rate markets**
  o Yields are starting to make sense again, given the economic situation
    ▪ Credit spreads (BB-Treasury, AAA-Treasury) have come back in from extreme levels in late March

![Long-term yields chart](chart.png)

- Daily data through Apr. 2, 2020

**Commodity markets**

- Agricultural commodity prices are down much less than energy or the stock market
  ▪ Cotton and livestock are down 20+% in last 60 days
  ▪ Grains and soybeans down much less
  ▪ Energy prices down much more

<table>
<thead>
<tr>
<th>Com</th>
<th>Soybeans</th>
<th>Wheat</th>
<th>Rice</th>
<th>Live cattle</th>
<th>Lean hogs</th>
<th>Cotton</th>
<th>Copper</th>
<th>Gold</th>
<th>Ethanol</th>
<th>Oil (WTI)</th>
<th>Oil (Brent)</th>
<th>Wholesale gasoline</th>
<th>Natural gas</th>
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<tbody>
<tr>
<td>% change, Feb. 3-Apr. 2</td>
<td>-12</td>
<td>-2</td>
<td>-2</td>
<td>5</td>
<td>-24</td>
<td>-21</td>
<td>-25</td>
<td>-11</td>
<td>3</td>
<td>-37</td>
<td>-49</td>
<td>-45</td>
<td>-55</td>
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Daily data through Apr. 2, 2020
Stock market

- We’re probably in a bear-market rally—strong rebound since the lows on Mar. 23 (S&P 500 up 12%)
- But stock-market volatility and economic-policy uncertainty remain sky high—there is no way we have returned to a normal investing period; risk remains very high
- Large caps have done better than midcaps and small caps
- Financial stocks also down much more than nonfinancial stocks

<table>
<thead>
<tr>
<th>% change, Feb. 3–Apr. 2</th>
<th>S&amp;P 100</th>
<th>S&amp;P 500</th>
<th>S&amp;P Industrials</th>
<th>S&amp;P 500 Financials - GICs</th>
<th>S&amp;P 400 Midcap</th>
<th>S&amp;P 600 Smallcap</th>
<th>DJGI World</th>
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<tbody>
<tr>
<td></td>
<td>-20</td>
<td>-22</td>
<td>-20</td>
<td>-33</td>
<td>-32</td>
<td>-35</td>
<td>-24</td>
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Daily data through Apr. 2, 2020

Summary comments

- The economy is in freefall until the government support programs kick in
- Our local economies are going to track the nation, no matter what we do
- Financial markets reached rock bottom around Mar. 23; things are much better now but still not back to normal.
- The single best real-time indicator of where we are is the stock market
- Best source of information about where policymakers and the economy are headed is St. Louis Fed President Jim Bullard