

# Economic outlook webinar



# Explore current trends that affect your business



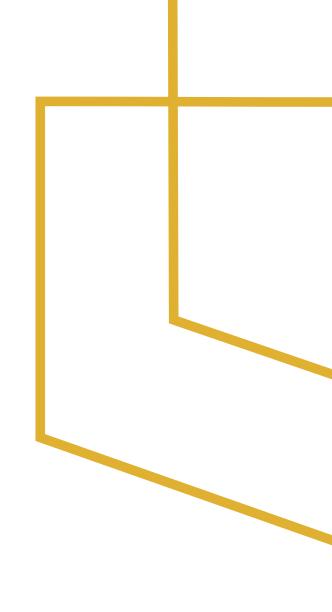
Government relations

Federal Reserve actions

Economic outlook

# Government relations

# 2020 presidential election



# First-time voter population represents changes occurring in the country

#### Fast facts about the youth electorate in 2020



For the first time, individuals born after the 9/11 attacks will vote in a presidential election.



Young voters are **more likely to be pursuing higher education** and have parents with college degrees.



**54%** of first-time voters **live in or near urban areas** rather than rural areas.



Generation Z's share of the electorate will surpass the Silent Generation's share for the first time.



Hispanic Americans will become the **largest** racial/ethnic minority voting group, surpassing Black Americans for the first time.



Only **53%** of first-time voters are **non-Hispanic white individuals.** This represents an 11% drop from the rest of the voting-age population.



#### Civic and political engagement

Despite being civically active, Generation Z's political disengagement and lack of faith in **politics as a driver for change** will prove to be challenging for candidates trying to mobilize the generation.

Only **16%** of individuals aged 18-29 believe that "elected officials who are part of the Baby Boomer generation" care about young individuals.

Despite the surge in youth turnout in the 2018 midterms, **only 4 in 10 voters aged 18-29** said they would vote in 2020. **66%** of these voters favor the Democratic party over the Republican party.

Sources: Axios, BBC, The HIll.

# Key issues impacting the 2020 presidential election

#### **Democrats**

Pandemic Response Racial and Social Justice Police Reform Healthcare

### Republicans

Pandemic Response Economic Recovery due to Pandemic Police Reform America First Foreign Policy









### President Donald Trump



### **President Donald Trump**

#### President Trump's COVID-19 Response:

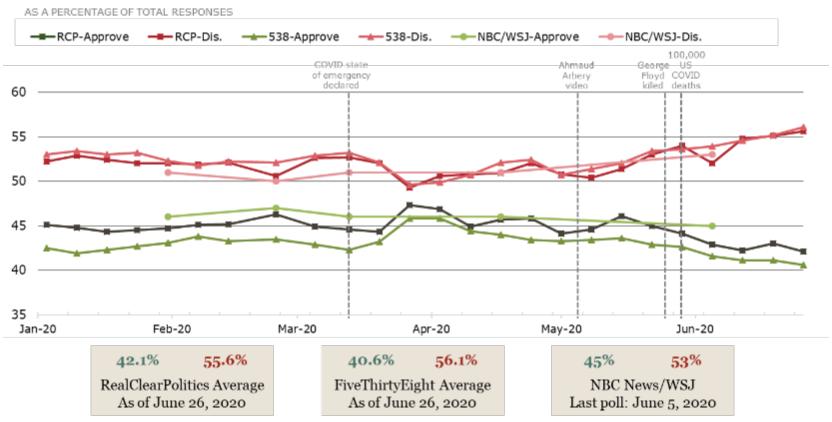
- Proposed \$1 Trillion Stimulus Spending, included \$250 billion in direct stimulus checks to American citizens.
- Signed PPP extension, extending the program deadline to August 8th.
- On May 29, President Trump announced his intention to immediately halt US membership in the World Health Organization.

#### **Overall Campaign Issues:**

- Trump signed an executive order in June 2020 focused on policing reforms.
- The campaign continues to focus on the economy, deregulation of sectors, and growing the United States' GDP.
- The President's campaign has focused on reducing the flow of undocumented immigrants into the United States and building a barrier between the U.S. and Mexico.

# Trump's approval has decreased in recent weeks around the pandemic and protests

#### Do you approve or disapprove of President Trump's job performance?



Sources: RealClearPolitics.com, FiveThirtyEight.com, NBC News/WSJ.

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### Former Vice President Joe Biden



### **Former Vice President** Joe Biden

#### Biden's COVID-19 Response Plan includes:

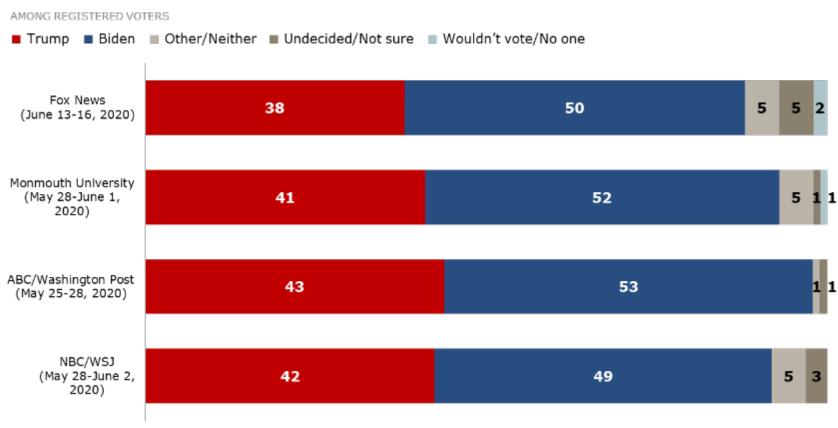
- Relief or forbearance for federal student loans and federallybacked mortgages.
- Establish a temporary smalland medium-sized business loan facility.
- Create a federally funded emergency paid leave plan requiring 14 days of paid leave.
- Free testing, treatment, and vaccines for all people

#### Additional Campaign Issues:

- Biden supports \$15 minimum wage, empowering the ability to unionize and collectively bargain
- Biden has expressed desire to eliminate capital gains tax
- Biden wants to eliminate cash bail. forprofit prisons, mandatory minimum sentences.
- Biden will create a \$20 billion competitive grant program to spur states to focus on prevention and reduce incarcerated populations.

### Polls show Joe Biden with a lead

#### Head-to-head general election polls

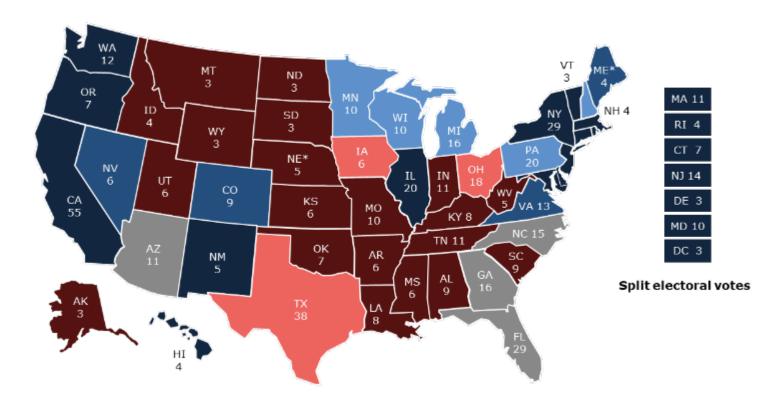


Sources: Fox News, NBC/WSJ, ABC/Washington Post, Monmouth University.

### 85 electoral votes are in toss up states

#### Cook Political Report: 2020 Electoral College ratings



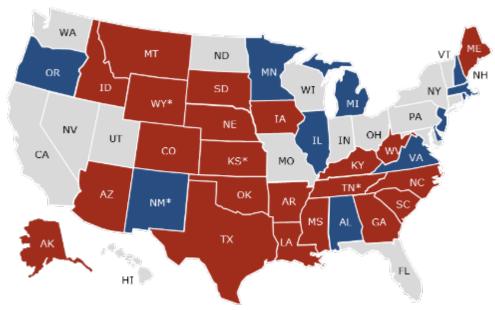


<sup>\*</sup>Nebraska and Maine award two electors each to the winner of their state's popular vote and one elector to the winner of each of their congressional districts Sources: Cook Political Report.

# 2020 congressional elections



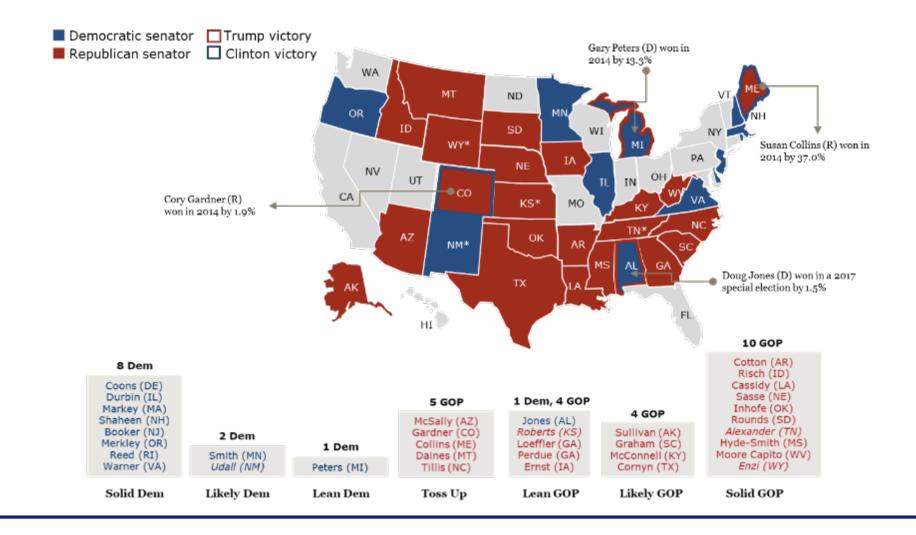
# Senators up for re-election in 2020



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<sup>®</sup> Senator	rs not se	eking re	election	in 2020	þ

Democrats (12)		Republicans (23)					
Doug Jones (AL)	Jeanne Shaheen (NH)	Dan Sullivan (AK)	Jim Risch (ID)	Cindy Hyde-Smith (MS)	Lamar Alexander (TN)*		
Chris Coons (DE)	Cory Booker (NJ)	Martha McSally (AZ)	Joni Ernst (IA)	Steve Daines (MT)	Lindsey Graham (SC)		
Dick Durbin (IL)	Tom Udall (NM)*	Tom Cotton (AR)	Pat Roberts (KS)*	Ben Sasse (NE)	John Cornyn (TX)		
Ed Markey (MA)	Jeff Merkley (OR)	Cory Gardner (CO)	Mitch McConnell (KY)	Thom Tillis (NC)	Shelley Moore Capito (WV)		
Gary Peters (MI)	Jack Reed (RI)	David Perdue (GA)	Bill Cassidy (LA)	Jim Inhofe (OK)	Mike Enzi (WY)*		
Tina Smith (MN)	Mark Warner (VA)	Kelly Loeffler (GA)	Susan Collins (ME)	Mike Rounds (SD)			

# Senators up for re-election in states won by the opposing party's 2016 presidential candidate

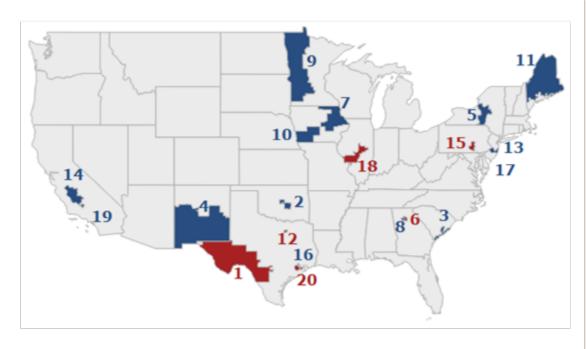


# 14 Democrat-held House seats are in the top 20 most likely to flip party control

#### Hotline's 2020 House power rankings

IN ORDER HOW LIKELY THEY ARE TO FLIP PARTY CONTROL

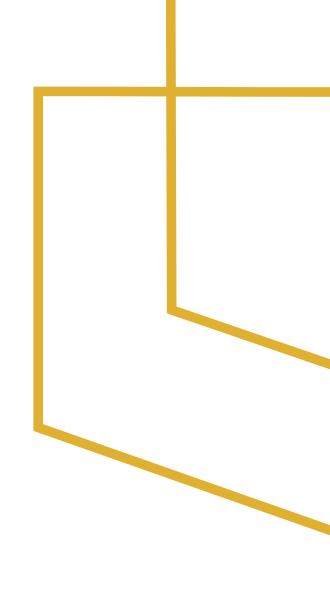
■ Seat held by a Republican
■ Seat held by a Democrat



- 1. TX-23: Rep. Will Hurd (R)\*
- 2. OK-5: Rep. Kendra Horn (D)
- SC-1: Rep. Joe Cunningham (D)
- 4. NM-2: Rep. Xochitl Torres Small (D)
- 5. NY-22: Rep. Anthony Brindisi (D)
- 6. GA-7: Rep. Rob Woodall (R)\*
- 7. IA-1: Rep. Abby Finkenauer (D)
- 8. GA-6: Rep. Lucy McBath (D)
- 9. MN-7: Rep. Collin Peterson (D)
- 10. IA-3: Rep. Cindy Axne (D)
- 11. ME-2: Rep. Jared Golden (D)
- 12. TX-24: Rep. Kenny Marchant (R)\*
- 13. NY-11: Rep. Max Rose (D)
- 14. CA-21: Rep. T.J. Cox (D)
- 15. PA-10: Rep. Scott Perry (R)
- 16. TX-7: Rep. Lizzie Fletcher (D)
- 17. NJ-3: Rep. Andy Kim (D)
- 18. IL-13: Rep. Rodney Davis (R)
- 19. CA-48: Rep. Harley Rouda (D)
- 20. TX-22: Rep. Pete Olson (R)\*

<sup>\*</sup> Incumbent not seeking reelection in 2020 Sources: National Journal

# 2020 legislative outlook



### Federal actions and COVID-19

#### Coronavirus relief legislation

- Congress has passed 4 coronavirus bills:
  - Phase 1: \$8.3 billion
- Phase 3: \$2 trillion
- Phase 2: \$100 billion
- Phase 3b: \$484 billion
- House Dems passed their Phase 4 legislation on May 15<sup>th</sup>; Senate leadership has indicated that they might pass a bill later in July

#### Paycheck protection program extension

- The PPP loan program closed at the end of June, with \$130 billion left unclaimed
- The Senate passed an extension until August 8 late on June 30th, and the House followed suit on July 1st by unanimous consent
- · Congressional leaders are expected to continue negotiations over the July 4th recess on more small business relief

#### COVID-19 economic relief

- Unemployment benefits provided in the first round of stimulus packages will expire on July 31st
- · Treasury Secretary Mnuchin hopes the next stimulus plan will be reached ahead of the July expiration

#### Federal Reserve

- The interest rate on the 30-year fixed-rate mortgage is likely to remain at record lows, according to a Fed economic analysis
- In its June FOMC meeting, the Fed announced that it hopes to keep interest rates steady until at least 2022

Sources: CNBC, The Washington Post, Politico, The Hill, New York Times

# Congress's multi-phase response to the coronavirus crisis

#### Phase 1 Initial support and vaccine development H.R. 6074 — Coronavirus **Preparedness and Response Supplemental Appropriations Act** • \$8.3 billion in COVID-19 response funding for developing a vaccine and preventing further spread of the virus Became law on 3/6/20

#### Phase 2

Paid leave, unemployment and food assistance

#### H.R. 6201 — Families First **Coronavirus Response Act**

- \$100 billion in worker assistance. including emergency paid sick leave, food assistance, and unemployment payments
- Became law on 3/18/20

#### Phase 3

Major economic stimulus package

#### H.R. 748 CARES Act

- Major stimulus package (\$2 trillion)
- Loans and support to major industries. including airlines and small businesses
- Direct payments to individuals and families
- Became law on 3/27/20

#### Phase 3b

Additional funding for small businesses/hospitals

#### H.R. 266 Paycheck Protection **Program and Health Care Enhancement Act**

- \$310 billion for the depleted Paycheck Protection Program, additional funding for hospitals and testing
- Became law on 4/24/20

#### Phase 4 - TBD

Additional economic support (likely) Infrastructure (maybe)

- The House passed the \$3 trillion HEROES Act which includes a new round of direct payments to individuals, funding for states & localities, and increased pay for front-line workers, among many other provisions
- Senate Maj. Leader McConnell (R-KY) has indicated that the Senate will start working on a 'final rescue package' in July after taking a "snapshot of where the country stands"

#### **Expiring provisions**

- August 8 PPP will stop accepting new loan applications
- · July 31 End of federal moratorium on certain evictions and enhanced unemployment benefits passed as part of the CARES Act

Sources: The Wall Street Journal, The Washington Post, Congress.gov, US News, Forbes.

# Potential provisions in the Phase 4 stimulus package

Unlike the four previous legislative packages, the next package is expected to move slowly due to differing partisan priorities



#### Republicans have voiced support for:

- Sen. Majority Leader Mitch McConnell (R-KY)
  has indicated that decisions on the next
  legislative package will start after the July 4th
  recess
- · Increased infrastructure spending
- Liability protections for reopening businesses
- Incentives for supply chain repatriation
- Reforms to PPP: Proposed reforms from Sens. Scott (R-FL) and Toomey (R-PA) include requirements for businesses to show reduction in revenue and make it easier for small companies to obtain loans
- Payroll tax cut: President Trump strongly supports but has received push back from some GOP leaders



#### Democrats have voiced support for:

- On May 15<sup>th</sup>, the House passed a phase 4 bill which included many of the Democratic priorities for coronavirus response
- Support for state and local governments.
- Federal rent assistance, funding for election reform, hazard pay for essential workers, and funding for the US Postal Service.
- Federal assistance to help states transition to vote-by-mail programs
- Another round of stimulus checks and an extension of unemployment insurance
- Supporting tribal government needs, increasing rural broadband, and addressing food security

Sources: The Hill, Axios, ABCNews, Washington Post,

# Congress needs to improve the budget by October and pass other legislation this year



#### FISA programs - March 15, 2020 (extended 77 days)

- These include Section 215 (meta-data on domestic text messages and phone calls), roving wiretaps, and lone wolf surveillance
- Some lawmakers also want to use this time to reform FISA



#### Health care programs - May 22, 2020 (extended until November 30, 2020)

- · Community Health Centers
- Temporary Assistance for Needy Families
- · National Health Service Corps
- Various other public health-related programs





#### FAST Act - September 30, 2020

- Various roadway programs, including those funded by the Highway Trust Fund and programs related to bridges and railways
- House Democrats introduced a \$1.5 trillion T&I bill that includes FAST Act reauthorization; GOP senators introduced a bill in July 2019 for reauthorization



#### NDAA - December 31, 2020

- Sets the budget for the Defense Department and other defense-related programs
- · Often includes other policy proposals

# Federal Reserve actions

### Aggressive Fed actions in credit programs

### Quick response time

- Extremely aggressive in creating programs to help support the economy during pandemic.
- What took months in 2008-09, only took days and weeks in 2020.
- No credit market left behind as multiple programs were announced.

### Numerous program announced

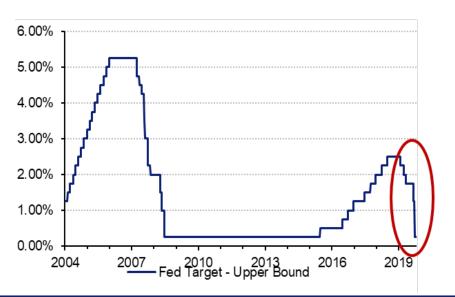
- Commercial Paper Funding Facility
- Money Market Mutual Fund Liquidity Facility
- Paycheck Protection Program Liquidity Facility
- Primary Market Corporate Credit Facility
- Main Street Loan Facility
- And others



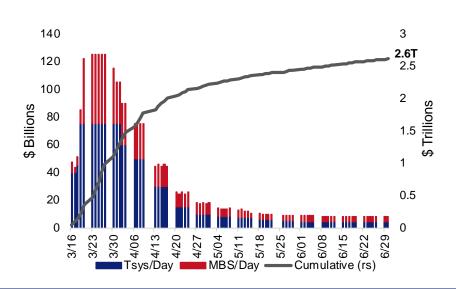
# Applied Fed monetary policy and reg relief

- Cut interest rates to zero.
- Cut reserve requirements and cost to access discount window.
- Provided capital/liquidity buffer relief for banks.
- Unlimited "Quantitative Easing" by purchasing:
  - US Treasuries
  - Agency Mortgage Backed Securities

#### **FED FUNDS RATE**



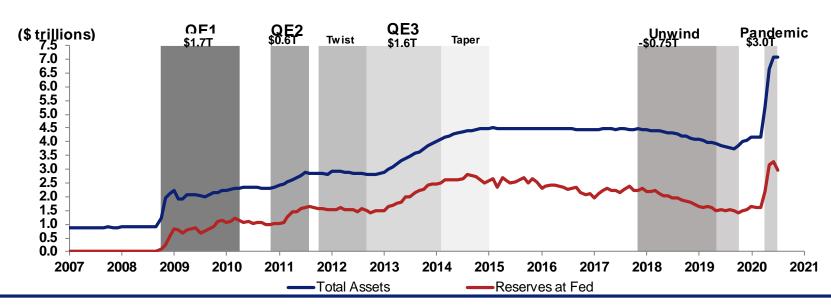
#### **RECENT FED BOND PURCHASES**



# Dramatic balance sheet growth

- Fed nearly grew it's balance sheet faster in two months than it did in the previous "QE"s combined.
- Rapid purchases at first to ensure a functioning market.
- Purchases going forward used to stimulate investment.

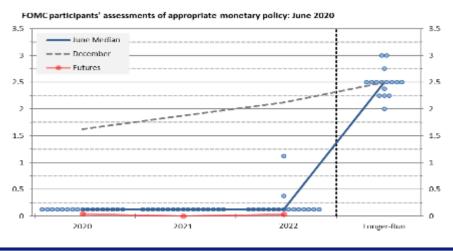
#### FEDERAL RESERVE BALANCE SHEET



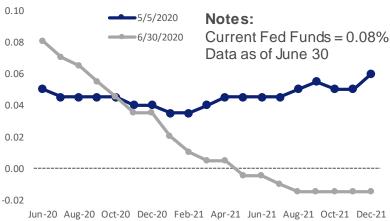
### Fed still has a lot of tools available

- Forward Guidance: communicating to markets that rates will remain low for a period of time.
- Yield Curve Control: Pegging longer-term interest rates to a "target rate."
- Negative Rates: Reduce target short-term rates into negative territory as has been done in Europe.
- Fed is not considering negative interest rates, but market is pricing in some probability of the event.

#### FOMC ASSESSMENT OF APPROPRIATE MONETARY POLICY



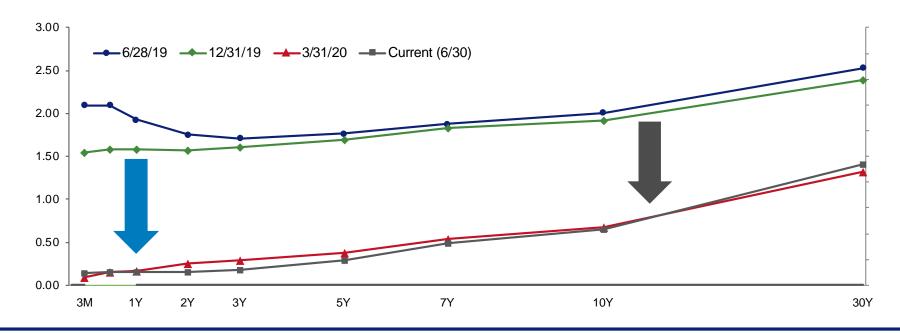
#### FED FUNDS CONTRACT



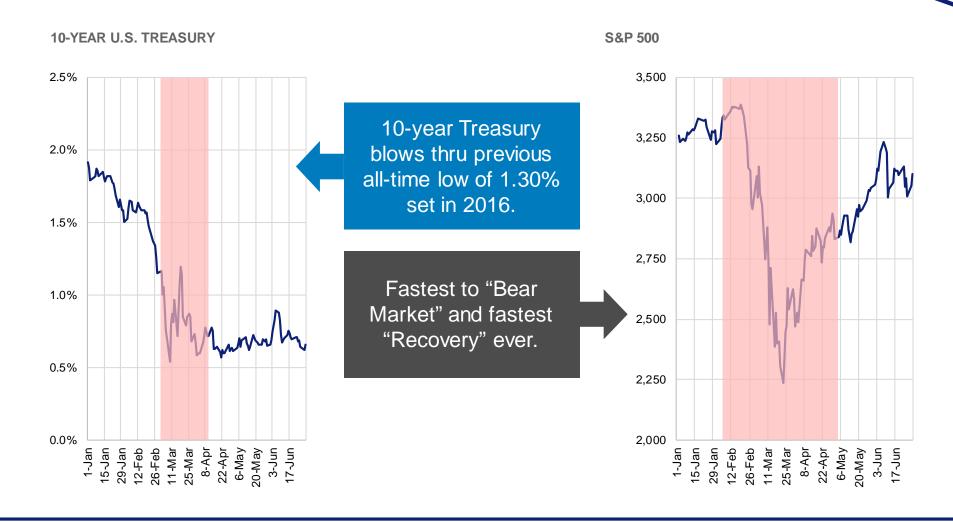
### Fed drives "lower for longer" yield curve

- Front-end remains anchored by expectations for Fed to keep rates on hold at near zero.
- Long end has been drifting lower on Fed's purchase of securities.

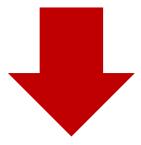
#### TREASURY YIELD CURVE (RECENT HISTORY)



### Bond and equity markets recover after volatility



# Substantial uncertainty in outlook for interest rates





### Economy

An increase in duration and/or severity of economic shock globally could trigger a renewed round of flight-to-quality buying of Treasuries.

### Inflation

Near-term outlook is deflationary while extraordinary levels of monetary stimulus may lead to inflation over the medium to longterm.

### **Treasury Supply**

Record net issuance of T-Bills will likely be refinanced into longer tenors. Additional fiscal stimulus will add to supply.

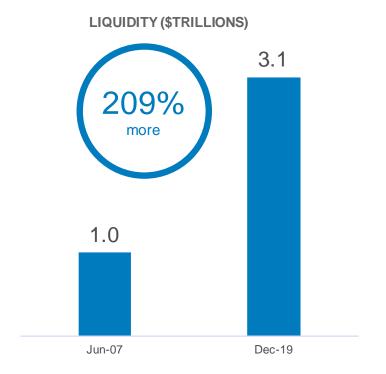
### Fed Support in Treasury Markets

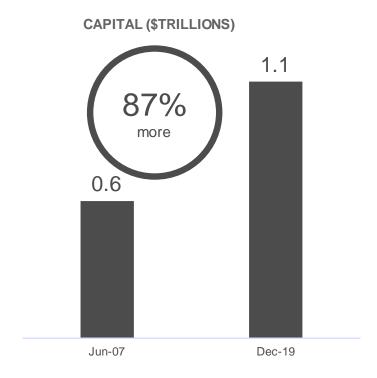
Uncertain outlook around QE and other monetary policy efforts.

### Banks well positioned for pandemic event

 Liquidity in the banking industry has greatly increased since the **Great Recession** 

 Banks have a greater quality of capital than heading into the current recession



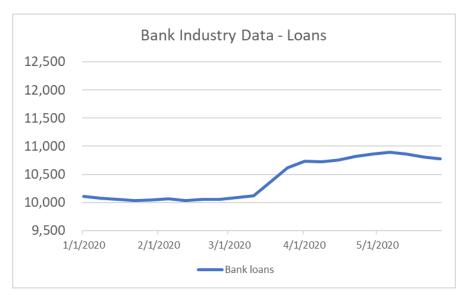


# Banking industry growth supportive of economy

- Loans are up 7% as companies rely on banks for liquidity
- Fed policies have helped grow deposits to record levels

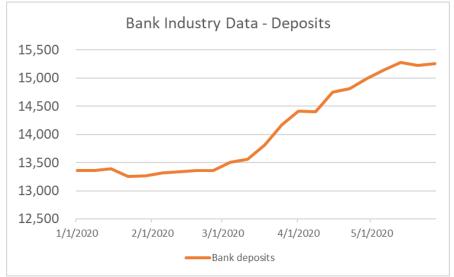


\$0.7 Trillion



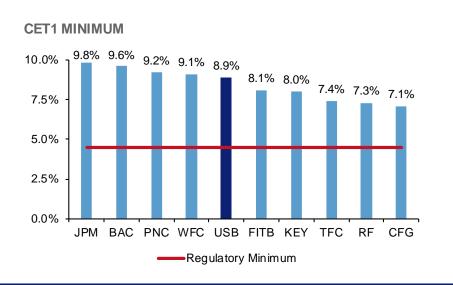


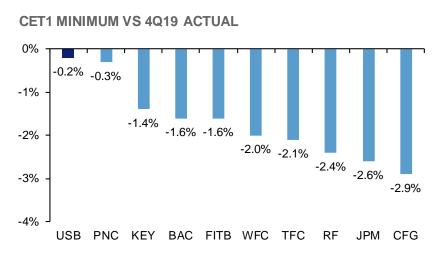
\$1.9 Trillion



### Banks fare well in Fed's annual stress test

- Each year the Fed assess bank capital adequacy by pushing banks through a hypothetical stress test
- All bank passed the stress test by having capital levels well above the required minimum of 4.5%
- Importantly, this scenario was conducted prior to the COVID pandemic occurring

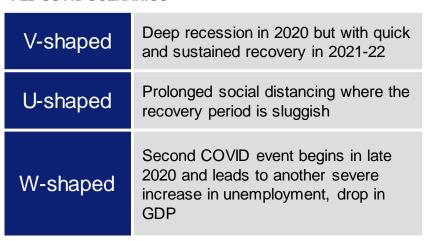




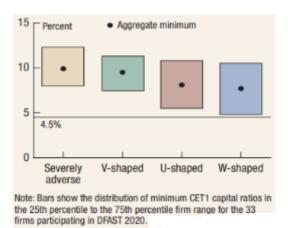
### Fed to further test banks in COVID scenarios

- Given the current environment, Fed will ask banks to evaluate their capital plans thru updated scenarios
- Initial sensitivity analysis by the Fed was disclosed showing the banking sector, in aggregate, can manage through the pandemic
- Fed asks banks to refrain from buying back stock and capping dividends to give time to assess the broader economic trends

#### FED COVID SCENARIOS



#### FED SENSITIVITY ANALYSIS



# Economic outlook

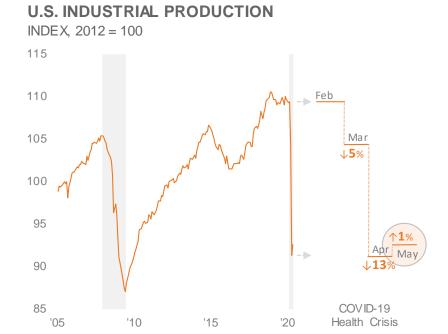
# **U.S.** macro signposts

Scope & speed of downturn was unprecedented; but signs economy is rebounding

Economic data uniformly points to a record breaking collapse in economic activity after COVID-19 lockdowns began in mid-March.

Recent measures show economy turning the corner as stay-at-home orders ease & businesses partially reopen.

#### **U.S. RETAIL SALES BILLIONS OF \$** 550 Feb 500 Mar 450 400 COVID-19 300 '05 '10 '15 '20 Health Crisis



Sources: US Bank, Bloomberg, Moody's Analytics

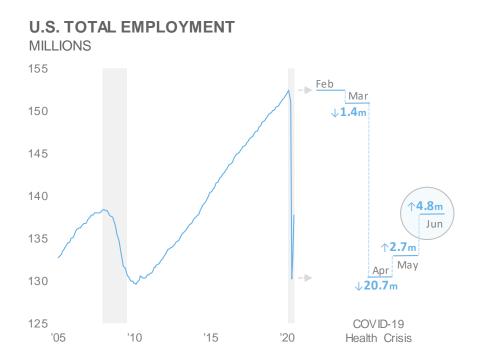
Updated: 7/13/2020

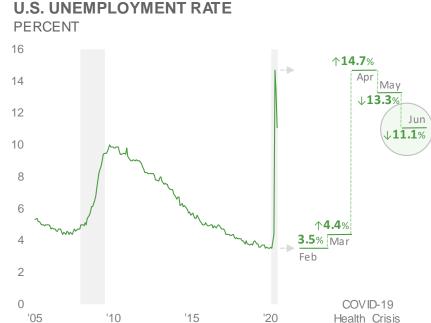
### Economic recovery has begun

Impact of COVID perhaps most visible in labor market

Employers **shed over 22 million jobs** in March and April. And **unemployment rate jumped** from 50-yr low of 3.5% to post–WWII high of 14.7%.

Recent employment reports vastly exceeded expectations, with combined 7.5 million jobs returning & unemployment falling to 11.1%.





Sources: US Bank, Bloomberg, Moody's Analytics

Updated: 7/13/2020

### A deep hole

Employment and output remain far below pre-pandemic levels

Overall economic growth looks to have been down ~10% in 2Q vs. year ago, or 2 to 3 times peak-to-trough decline in 2008-09 recession.

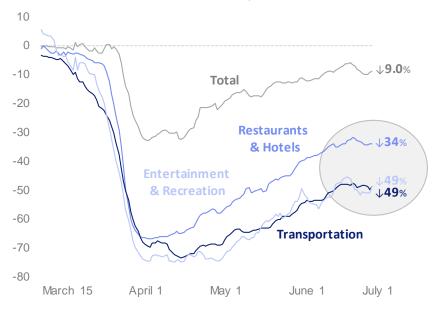
Alternative high-frequency data suggest economic activity is rebounding, although some activity remains depressed.

#### U.S. WEEKLY ECONOMIC INDEX

NY FEDERAL RESERVE 6 -2 -4 **U.S.** Weekly Economic Index -6 (2Q 2020 Average: -9.8%) -8 U.S. Real GDP (Y/Y % Chg) -10 -12

#### U.S. CREDIT / DEBIT-CARD SPENDING

PERCENT CHANGE FROM JAN 2020, 7-DAY AVERAGE



Sources: US Bank, Bloomberg, Federal Reserve, Opportunity Insights, Moody's Analytics. Updated: 7/13/2020

### Long road back from pandemic

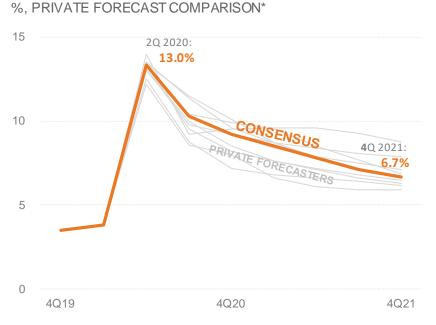
Households and businesses wait for more clarity on path of virus

Consensus forecasts still expect economic recovery to resemble more of a Swooshshaped crawl than a V-shaped sprint.

Expect initial bounce this summer as economy reopens. But then activity is seen to go largely sideways until gain clarity on virus' path.

### U.S. REAL GDP PROJECTIONS % CHANGE FROM 4Q 2019, PRIVATE FORECAST COMPARISON\* 40 2021: CONSENSUS PRIVATE FORECASTERS 2Q 2020: **↓11.6%** -10 -15 4Q19 4Q20 4Q21

#### U.S. UNEMPLOYMENT RATE PROJECTIONS



\*Includes Moody's Analytics, IHS Markit, Oxford Economics, JP Morgan, Goldman Sachs, UBS, Barclays, Bank of America, Wells Fargo, Citigroup, Deutsch Bank, Morgan Stanley.

Sources: US Bank, Bloomberg, Moody's Analytics

Updated: 7/13/2020

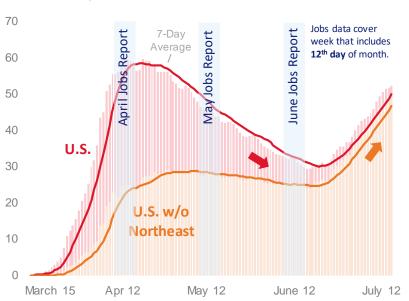
### Still fraught with risks

Course of economy depends on course of pandemic & measures to contain it

### **Enormous uncertainty regarding path of COVID-19** viewed as principal reason economy

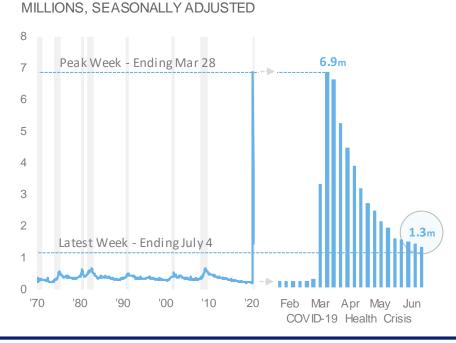
is unlikely to quickly kick back into gear.

U.S. CURRENT COVID-19 HOSPITALIZATIONS THOUSANDS, NUMBER OF PATIENTS\*



Labor market improvement risks stalling, as initial period of rehiring starts to wind down, or amid another wave of still-elevated layoffs.

U.S. INITIAL JOBLESS CLAIMS



\*Excludes Hawaii, and Kansas—as do not publicly report data on current COVID-19 hospitalizations. Also extrapolated to incorporate recent inclusion of Florida.

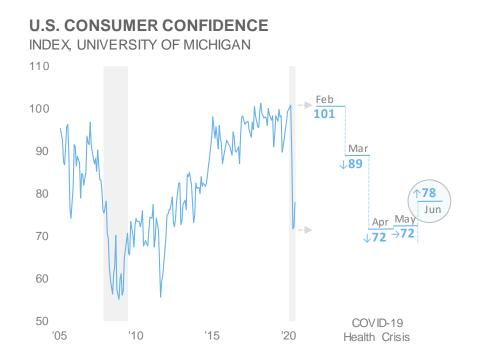
Sources: US Bank, The COVID Tracking Project, Bloomberg, Moody's Analytics Updated: 7/13/2020

### Fiscal support fading

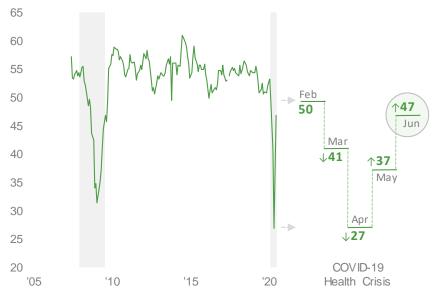
Policy responses have helped put a floor under economic fallout; but what now?

To date, fiscal & monetary policymakers have provided massive support to keep economy & markets afloat; and to shore up confidence.

How well the economy performs after this summer's initial bounce, may **depend critically on what policymakers** do next.







 $Sources: US\ Bank,\ Bloomberg,\ Moody's\ Analytics$ 

Updated: 7/13/2020