



Summary

U.S. stocks closed mixed on Friday but ended the week solidly higher on optimism about the partial re-opening of the U.S. economy. For the week, the Dow Jones Industrial Average increased 3.8%, the S&P 500 advanced 3.0%, and the NASDAQ was up 1.8%. Economic reports continued to reflect the havoc wreaked on the economy by the COVID-19 pandemic. Real gross domestic product (GDP) growth in the 1st quarter of 2020 was revised slightly lower to a 5.0% annualized decline in the second estimate while real final sales growth—which excludes change in private inventories and reflects demand by consumers, businesses, and the government—was revised higher to a 3.7% drop from 4.3%

in the advance estimate. Personal income climbed 10.5% in April compared with expectations for a 6.5% drop as Americans received federal stimulus checks. Personal spending tumbled 13.6% as the personal savings rate jumped 20.3 percentage points to 33.0%. The personal consumption expenditures (PCE) price index fell 0.5% in April and the core PCE price index was down 0.4%. On a year-over-year basis, the PCE price index increased a tepid 0.5% and the core PCE price index advanced 1.0%. Orders of durable goods plunged 17.2% in April and orders of core capital goods, a proxy for business investment, decreased 5.8%. Initial unemployment claims for the week ending May 23

declined to 2.123 million and continuing claims for the week ending May 16 dropped 3.860 million to 21.052 million suggesting that employers were hiring back some employees as they reopened their businesses. The March Case-Shiller 20-City Index was up 3.9% and the Federal Housing Finance Agency's House Price Index climbed 5.7% on a year-over-year basis from the 1st quarter of 2019. New home sales rose unexpectedly in April while the median sales price of a new home declined 8.6% from a year earlier. In more housing news, the U.S. Pending Home Sales Index dropped 21.8% in April and was down 33.8% on a year-over-year basis.

ECONOMIC RELEASES

Last Week: Indicator	Number Reported	Consensus Expectation*	Comment
FHFA Housing Price Index (Mar – Tu 9:00)	+0.1%	NA	+5.7% from the 1 st quarter of 2019
S&P Case-Shiller 20-City Index (Mar – Tu 9:00)	+3.9%	+3.8%	Largest increases in Phoenix, Seattle, and Charlotte
New Home Sales (Apr – Tu 10:00)	623 TUAR	485 TUAR	+0.6% from March
Consumer Confidence (May – Tu 10:00)	86.6	88.5	Up 0.9 points from April
Initial Unemployment Claims (5/23 – Th 8:30)	2.123 Mil.	1.950 Mil.	4-week moving average declined 436,000 to 2.608 mil.
Continuing Claims (5/16 – Th 8:30)	21.052 Mil.	NA	Down 3.860 million from previous week
Durable Orders (Apr – Th 8:30)	-17.2%	-17.0%	Orders for core capital goods dropped 5.8%
Durable Orders ex-transportation (Apr – Th 8:30)	-7.4%	-8.4%	Transportation orders tumbled 47.3%
Real Gross Domestic Product (Qtr 1 – Th 8:30)	-5.0%	-4.8%	Real final sales of domestic product fell 3.7%
Chain Deflator (Qtr 1 – Th 8:30)	+1.4%	+1.3%	
Pending Home Sales (Apr – Th 8:30)	-21.8%	-4.8%	-33.8% from April 2019
Personal Income (Apr – Fr 8:30)	+10.5%	-6.5%	Personal current transfer receipts surged 89.6%
Personal Spending (Apr – Fr 8:30)	-13.6%	-15.0%	Personal savings rate jumped to 33.0%
PCE Prices – Core (Apr – Fr 8:30)	-0.4%	-0.3%	+1.0% from April 2019
Michigan Sentiment (May – Fr 10:00)	72.3	73.7	Present conditions index up 8 points from April
Upcoming Week: Indicator	Consensus Expectation*	Last Period	Comment
ISM Manufacturing Index (May – Mo 10:00)	44.0	41.5	
Factory Orders (Apr – We 10:00)	-13.0%	-10.3%	
ISM Services (May – We 10:00)	45.0	41.8	
Initial Unemployment Claims (5/30 – Th 8:30)	1.800 Mil.	2.123 Mil.	
Continuing Claims (5/23 – Th 8:30)	NA	21.052 Mil.	Not available
Nonfarm Business Productivity (Qtr 1 – Th 8:30)	-2.6%	-2.5%	Revised
Trade Balance (Apr – Th 8:30)	-\$49.8 Bil.	-\$44.4 Bil.	
Nonfarm Payrolls (May – Fr 8:30)	-8.5 Mil.	-20.5 Mil.	
Nonfarm Private Payrolls (May – Fr 8:30)	-8.8 Mil.	-19.5 Mil.	
Unemployment Rate (May – Fr 8:30)	19.9%	14.7%	
Average Hourly Earnings (May – Fr 8:30)	+2.2%	+4.7%	
Average Workweek (May – Fr 8:30)	34.3	34.2	
Consumer Credit (Apr – Fr 3:00)	-\$42.0 Bil.	-\$12.1 Bil.	

*Sources: www.briefing.com and www.federalreserve.gov.





Economic Review

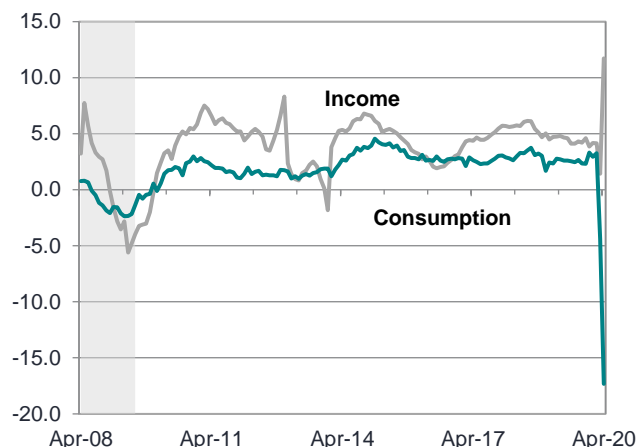
Personal income rose unexpectedly as Americans received stimulus checks from the federal government while personal spending tumbled in April. After falling a downwardly revised 2.2% in March, **PERSONAL INCOME** climbed 10.5% in April. Wages and salaries fell 8.0% and proprietors' income dropped 12.2% while personal current transfer receipts surged 89.6% last month. Disposable personal income jumped 12.9% in April after decreasing 2.1% in March; real disposable personal income was up 13.4%. **PERSONAL CONSUMPTION** dropped 13.6% in April after falling 6.9% in March. When adjusted for inflation, personal spending was down 13.2%. The savings rate jumped 20.3 percentage points to 33.0% in April. The **PERSONAL CONSUMPTION EXPENDITURES PRICE INDEX** declined 0.5% in April after decreasing 0.2% in March. The PCE price index excluding food and energy was down 0.4% after being flat in March. From a year earlier, the price index for PCE rose a modest 0.5% and the core PCE price index was up 1.0%.

U.S. economic growth was revised slightly lower according to the Commerce Department's second estimate for 1st quarter real **GROSS DOMESTIC PRODUCT (GDP)**. GDP decreased at a 5.0% annual rate during the quarter after a 2.1% expansion in the 4th quarter. Consumer expenditures growth was revised higher to a 6.8% annualized drop in the 1st quarter from 7.6% in the previous estimate. Nonresidential fixed investment declined at a 7.9%

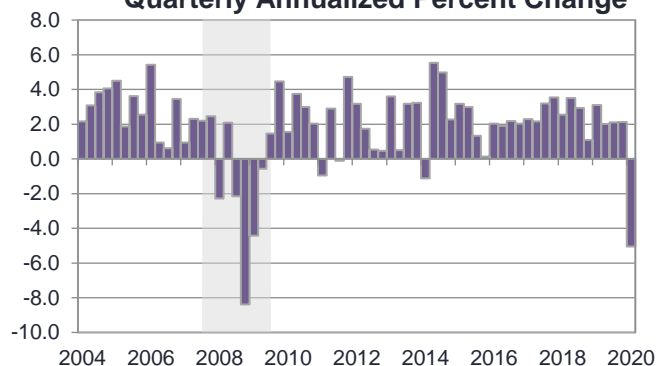
annualized rate in the 1st quarter, up from an 8.6% decrease in the previous estimate. Change in private inventories subtracted 1.43 points from growth in the 1st quarter compared with a 0.53-point subtraction in the advance estimate and net exports added 1.32 percentage points to growth compared to a 1.30-point addition in the advance estimate. Real final sales growth, which excludes change in private inventories, declined an annualized 3.7%, up from 4.3% in the advance estimate. The **GDP PRICE INDEX** increased by an annualized 1.4% in the 1st quarter.

Orders for U.S. manufactured goods intended to last at least three years tumbled in April as orders for transportation equipment plunged. **DURABLE GOODS ORDERS** decreased 17.2% in April after declining a downwardly revised 16.6% in March. Transportation orders plummeted 47.3% after falling 43.1% in March; durable goods orders excluding transportation decreased 7.4% after declining 1.7% in March. Orders for non-defense capital goods excluding aircraft, a proxy for business investment, dropped 5.8% after falling 1.1% in March and shipments of non-defense capital goods excluding aircraft—used in the GDP report—were down 5.4%.

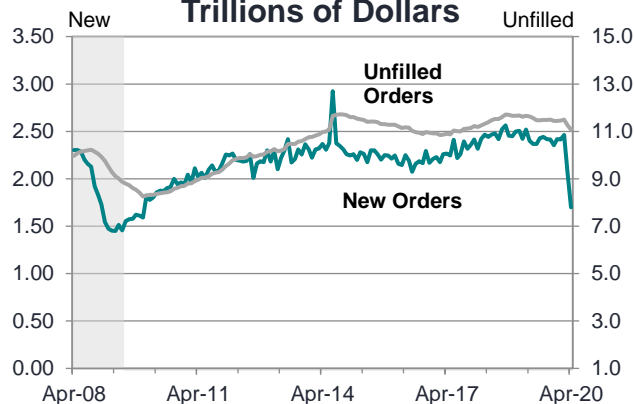
Personal Income and Consumption
Percent Change, Year-Over-Year



Real Gross Domestic Product
Quarterly Annualized Percent Change



Durable Goods Orders
Trillions of Dollars





Fed Speeches

Federal Reserve Bank of St. Louis President and CEO James Bullard spoke to Fox Business' Edward Lawrence last week. During the interview, President Bullard said keeping the economy shutdown too long could lead to disastrous economic and healthcare outcomes.

President Bullard went on to say that while the 2nd quarter will likely be the worst on record, he expects the 3rd quarter to be the best on record.

Growth right now is probably the worst it has ever been in certainly post-war U.S. macroeco-

"...the main impact here will be in the second quarter and the third quarter...will be the best quarter of all time on the growth perspective..."

Federal Reserve Bank of St. Louis President and CEO James Bullard

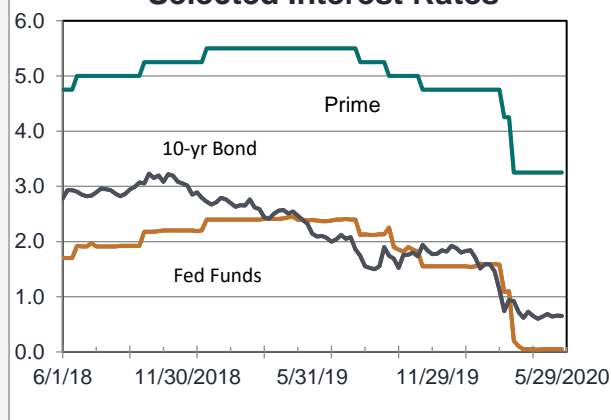
... while this [economic shut-down] has worked okay so far, I think, this can only go on for 90 days to 120 days. You've interrupted revenue streams for businesses and they can't go on too long. They can go on a little while like that, but they can't go on too long. So, I think what you're risking here is that this morphs into a financial crisis that makes things much worse and on the outside it morphs into a depression scenario in which healthcare outcomes as well as economic outcomes would be terrible.

... nomic history. A lot of Wall Street is projecting -40% at an annual rate for the second quarter. So, I've often said the main impact here will be in the second quarter and the third quarter very likely right behind the worst quarter will be the best quarter of all time on the growth perspective because logically businesses will open back up. So I think we need to keep in mind this shock is very different from the other ones that we've seen in the post-war era and you probably shouldn't be looking at all those past episodes to try to figure out what's going to happen this time.

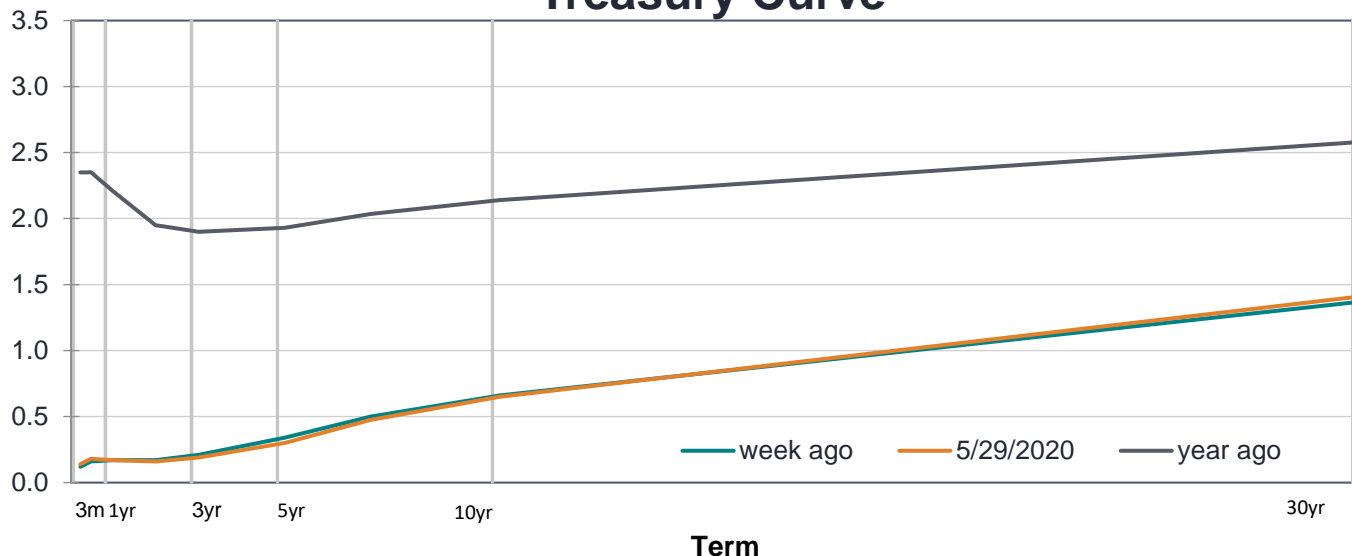
Financial Markets

The three major U.S. stock indexes ended last week higher with the Dow Jones Industrial Average rising 3.8%, the S&P 500 advancing 3.0%, and the NASDAQ increasing 1.8%. Treasury yields were little changed across the curve with the 10-year yield edging down 1 basis point to 0.65% and the 30-year yield rising 4 basis points to 1.41%. Oil prices climbed 6.6% and ended the week at \$35.44 per barrel. The U.S. dollar rose 0.2% against the Japanese yen while the euro was up 1.8% against the greenback last week.

Selected Interest Rates



Treasury Curve





Interest Rate Forecast*

The Federal Open Market Committee (FOMC) left the federal funds rate target unchanged at 0.0% to 0.25% at the Fed's April policy meeting. In the statement released following the April meeting, the FOMC said, "The coronavirus outbreak is causing tremendous human and economic hardship across the United States and around the world." The statement went on to say, "The Committee will continue to monitor the implications of incoming information

for the economic outlook, including information related to public health, as well as global

developments and muted inflation pressures, and will use its

tools and act as appropriate to support the economy."

Avg. for:	Prime	Fed Funds	3-Mo. LIBOR	6-Mo. T-Bill	2-Yr. Note	10-Yr. Treasury	30-Yr Bond	30-Yr Mortgage
2 nd Qtr '20	3.25	0.06	0.68	0.16	0.19	0.65	1.34	3.27
3 rd Qtr	3.25	0.09	0.57	0.16	0.23	0.73	1.44	3.27
4 th Qtr	3.25	0.12	0.64	0.17	0.31	0.88	1.51	3.31
1 st Qtr '21	3.25	0.13	0.70	0.19	0.36	1.02	1.62	3.35
2 nd Qtr	3.25	0.13	0.75	0.19	0.36	1.07	1.64	3.35

*Forecast as of May 26, 2020

FINANCIAL MARKET SUMMARY

	As of 5/29/2020	As of 5/22/2020	Weekly Change	4-Week Change	13-Week Change
MONEY MARKETS (Changes in BPs)					
Prime	3.25	3.25	0	0	(150)
LIBOR Index Base Rate (1 Month)	0.17	0.17	0	(23)	(144)
Fed Funds (Wed close)	0.05	0.05	0	0	(153)
TREASURIES (BE) (Changes in BPs)					
3 Months	0.14	0.12	2	2	(113)
6 Months	0.18	0.16	2	6	(93)
1 Year	0.17	0.17	0	0	(80)
2 Years	0.16	0.17	(1)	(4)	(70)
5 Years	0.30	0.34	(4)	(6)	(59)
10 Years	0.65	0.66	(1)	1	(48)
30 Years	1.41	1.37	4	14	(24)
MUNICIPALS – AAA G.O. & MORTGAGE (Changes in BP)					
2-Year Muni	0.14	0.17	(3)	(71)	(59)
5-Year Muni	0.42	0.45	(3)	(61)	(32)
10-Year Muni	0.82	0.84	(2)	(21)	(16)
30-Year Muni	1.74	1.74	0	(53)	19
30-Year Conventional Mortgage	3.15	3.24	(9)	(8)	(30)
MARKET INDICATORS (Changes in %)					
DJIA	25,383.11	24,465.16	3.8	7.0	(0.1)
S&P 500	3,044.31	2,955.45	3.0	7.5	3.0
NASDAQ	9,489.87	9,324.59	1.8	10.3	10.8
CRB Futures	140.42	137.54	2.1	12.4	(17.0)
Oil (WTI Crude)	35.44	33.25	6.6	80.0	(21.8)
Gold	1,744.50	1,735.50	0.5	2.0	10.1
Yen / Dollar	107.83	107.64	0.2	0.9	(0.0)
Dollar / Euro	1.1102	1.0901	1.8	1.1	0.7



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