TCF ECONOMIC OUTLOOK & INISGHTS NOTES

Date: September 21, 2020

Attended by: Jack Holden

Subject: Economic Outlook & Insights

Presenter: TCF Bank Jason Sasanfar: Executive VP, Deputy Treasurer, Chief Investment Officer

Discussion Topics:

1. Structural Forces Driving the Economy
2. Current Events & Their Impact
3. How 2020 Predictions Unfolded
4. Thoughts on the 2021 Outlook

Notes:

1. Structural Forces Driving the Economy (low inflation):
   a. Low population growth=slower economic growth
   b. Technology increases competition and keeps prices low
   c. High and rising debt=less money spent on investments that lead to growth
   d. Regulatory rules and restrictions have accumulated, which is disrupting innovation

2. Current Events & Their Impact
   a. Policy makers response (~5x 2008 stimulus) to pandemic necessary but increased risk as debt has not been invested in assets that create an income stream to repay principal/interest (unless it's a bridge for the jobless)
      i. Asset prices potentially ahead of asset fundamentals
   b. Fiscal policy transferred income to private sector through increased government borrowing
      i. Disposable income is up, despite historic job losses
      ii. Benefits of income transfer currently wearing out (waiting on additional stimulus)
      iii. Increase in public debt has little to no multiplier effect
   c. Fed grew balance sheet by 3 T to 7 T to ease monetary policy when already at near-zero interest rates (grew balance sheet by 3.7 T from 2008-2013)
      i. Eases financial conditions
      ii. Creates a wealth effect
      iii. Asset prices ahead of asset fundamentals increases inequality
   d. Hardest part of economic recovery ahead as momentum of fiscal stimulus fades and confidence that COVID-19 has been beaten has not yet been achieved
      i. Consumer activity running at ~60-80% of peak December 2019 levels
   e. Several headwinds facing a full recovery
      i. Social distancing
      ii. Impaired global supply chains
      iii. Need to retrain labor
      iv. Need to reallocate capital
      v. Higher debt levels

   f. Projected negative output gap (difference between actual and potential economic output) for the next decade will mute inflation
   g. In two months, the US economy lost 25M jobs, more than all jobs created in 10 years
      i. 55% of those jobs have been recovered
      ii. Currently ~28M receiving some sort of income assistance from Federal Programs
   h. Corporate America remains in a profit recession and has increased borrowing/leverage in responses to Dual Shock
      i. U.S. Corporate profits before tax leveled off at cycle peak of 2.3 T in Q3 2014 (has decreased to 1.8 T in Q2 2020)
      ii. Investment Grade Debt-to-EBITDA has increased to 3.5x (from a low of about 2.5X in the most recent expansion)
      iii. Investment Grade Interest Coverage has fallen to 5.8X(from a high of about 8X in the most recent expansion)
   i. Federal Reserve has doubled down on desire to achieve AVERAGE 2% inflation
      i. Fed will be slower to raise interest rates as the economy recovers
   j. Crisis has hit the weakest (low-income individuals and small-to-medium sized businesses) the most (K-shaped recovery)
      i. Wealth gap continues to widen as top 10% of households increased wealth faster than bottom 90%
   k. U.S. Dollar is down ~3.3% YTD
      i. As dollar declines, its status as a world reserve currency is weakened
      ii. As dollar declines, imports are relatively more expensive and U.S. exporters benefit
      iii. As dollar declines, U.S. multinational companies benefit

3. How 2020 Predictions Unfolded
   a. Peak-to-trough GDP declined ~10% in 2020 (declined ~4% in 2008 and took ~3 years to return to previous levels)
   b. Global growth was slowing pre-pandemic as too tight of monetary policy amplified by trade rhetoric collided with structural forces

4. 2021 Economic Outlook:
   a. Growth + Inflation:
      i. Sequential acceleration. 90% recovery possible
      ii. Inflationary dual-shock (pandemic and oil price drop) headwinds; policy tailwinds (federal stimulus)
   b. Easy Monetary Policy
      i. More monetary stimulus and coordination between fiscal and monetary required
   c. Corporate Profits
      i. Flat in aggregate (clear winners as well as clear losers=net little overall profit growth)
   d. Yield Curve
      i. Low interest rate environment for longer