

Well this is certainly not turning into a stress-free autumn, a season in which gently falling leaves should offer solace to a population agitated by a devastating pandemic. Yes, the foliage season is still very much part of nature's plan, as its vibrant colors are poised to reach peak intensity in coming weeks. But what nature gives to sooth the soul, mankind is equally adept at keeping the pot stirred. The past week has seen enough nerve-racking events to keep heads spinning through what promises to be a highly anxious winter.

The week started with the nation still grappling with the unsettling news that the leader of the world's wealthiest nation caught the world's most lethal disease in generations. While the prognosis is favorable, the president's recovery is evolving amid a disintegrating political and policy environment. Indeed, the affliction of such a high-profile person itself only heightened the nation's awareness that the health crisis is far from resolved, and will continue to be the critical force driving all forms of commerce and social behavior for months, if not years, to come. What's more, the uncertainty surrounding the election process, its outcome and how an intensely polarized population would accept the results has been dialed up another notch.

Not only has the election been thrown into disarray, so too has the uncertainty over government policy, both in the near and longer term. For sure, the monetary policy gears remain decisively in the drive position, as confirmed by the minutes from last month's FOMC meeting as well as recent public comments from Fed officials. What's more, most of them, most notably Chair Powell, also agree that more fiscal support is needed to sustain the recovery, or at least short-circuit the loss of momentum that appears to be well underway. But unlike the Fed's firm grip on reality, elected officials in Washington can't agree on a path forward. The administration has waffled between advocating a full-court stimulus plan, a skinny stand-alone plan that would help specific sectors, or nothing at all. The latest report on Friday afternoon is that President Trump has agreed to a \$1.8 trillion package, which is much larger than what his Republican colleagues in Congress had been willing to accept. Indeed, Congress has been in no less of a state of confusion, with Republicans and Democrats far apart on what they deem to be the proper size, scope and composition of support that the economy needs.

Despite the president's latest offer, the prospects of a comprehensive stimulus package before the November 3 elections are growing dimmer by the day even as the need for one is becoming more apparent. Which raises the question: if none is forthcoming, will the Fed be pushing on a string? As Chair Powell noted, the Federal government has a much more powerful and direct impact on economic activity than the central bank, but the economy receives the most benefit when the two policy levers are working together. With households in the process of suffering a significant income loss due to the expiration of stimulus programs put into effect last spring, it's unlikely that even a turbo-charged easy monetary policy will encourage them to borrow and spend.

If anything, just the opposite seems to be happening. When the pandemic first struck earlier in the year spurring a massive government and monetary response acting in concert the economy quickly rebounded, with consumers leading the charge. Armed with direct stimulus checks, enhanced unemployment benefits and encouraged by rock-bottom interest rates put into effect by the Fed, households quickly reopened their wallets and purses that had been drastically shut down in March and April. Consumer spending rebounded, fueled in part with increased borrowing, particularly for autos and other durable goods. After paying down debt for three consecutive months – the longest stretch of debt repayments in more than 10 years – consumer credit increased in June and July as households turned more confident about economic conditions and job prospects.

Interestingly, the increase occurred even as many households used their stimulus checks to pay down debt and shore up savings, in good part because purchasing options were limited by lockdown restrictions. That forced savings, in turn, fed a pipeline that enabled consumers to sustain spending even after the stimulus programs expired at the end of July. But the behavior of households since that expiration date has begun to change. Personal consumption did increase in August, but the 1.0 percent gain was far slimmer than the average 5.6 percent increases over the previous three months. Importantly, though, none of the August increase was financed with credit. Consumer credit contracted again during the month, with credit card repayments accounting for the entire decline and then some.

Instead, households tapped into their inflated savings cushion to help finance purchases, cutting the savings rate by more than half to 14.1 percent from a record 33.6 percent in April. The August rate is still historically high, but it more than likely represents mostly unspent funds of wealthy households whose purchasing options continue to be limited by restrictions on service providers, including those in the entertainment, travel and hospitality industries. Importantly, much of these unspent funds will not be unleashed after lockdown restrictions are fully lifted, giving the economy a delayed growth spurt from pent-up demand. Certain services will see a rush of customers; for example, patients will return to their dentists to receive treatment that was postponed during the shutdown phase of the pandemic. However, diners will not order two meals in restaurants when they reopen, nor are shaggy haired customers getting two haircuts from barbers. The lost sales of those providers will remain lost forever.

To be sure, the less affluent households also have some leftover funds from their \$1200 stimulus checks as well as from the extra \$600 in weekly unemployment payments received over the summer. A working paper by the National Bureau of Economic Research found that households stashed 30 percent of their stimulus checks into savings. No doubt, these funds will be used to finance essential purchases, particularly among those who lost jobs and are still not rehired. But even the 11.3 million who returned to work out of the 22 million laid off in March and April will not be as extravagant spenders as they were in February, when the unemployment rate was near a fifty-year low of 3.5 percent. The jobless rate has receded from its postwar high of 14.7 percent hit in April, but still remains highly elevated at 7.9 percent in September.

We suspect that households, including those now drawing paychecks, will retain a higher level of precautionary savings than they otherwise would in normal times. These are anything but normal times, with the pandemic still raging and job security being undermined by headline announcements of large-scale layoffs from major corporations. Joining the list this week are the media giants, Warner and the Regal chain of movie theaters, Chevron, and Disney, which is adding 15,500 workers to the 28 thousand announced cuts last month. To say that these announcements are undercutting job security would be an understatement.

In the first few months as the economy started to reopen from nationwide lockdowns in March and April, workers felt more emboldened about switching jobs, a reliable indicator of job security. Voluntary quits surged in May, June and July, although not up to levels that prevailed prior to the pandemic. In August, however, that spike in job leavers came to an abrupt halt, as workers opted to stay put amid slowing job growth and deep cuts in unemployment benefits should they not find a replacement for their paychecks. In August, 134 thousand fewer workers than in July voluntarily turned in their time cards. Many of those stayers may have noticed that job offerings were also becoming scarcer. That was confirmed by the Labor Department's Job Opening and Turnover Survey, which showed a steep 204 thousand decline in job openings for the month.

According to job monitoring sites, such as Indeed and Glassdoor, job listings have continued to weaken since August. Meanwhile, layoffs remain stubbornly high, resting well above pre-pandemic levels at 840 thousand in the week ending October 3. It has become increasingly difficult for unemployed workers to land a job. Only 23.4 percent of jobless workers in August were able to find a job in September, a job-finding rate that, except for April's aberrant 17.4 percent rate, is the lowest in more than four years. What's more, these jobless workers are spending more time on the unemployment lines, as the share out of work for at least six months has more than tripled since May.

The combination of a chaotic fiscal policy environment, a turbulent election season about to enter full swing and growing worker anxiety amid a weakening job market is a recipe for consumer and business caution in the fourth quarter. That said, the financial markets continue to see the glass as more than half-full, as stock prices posted another week of respectable gains, bolstered on Friday by President Trump's reported willingness to embrace a larger stimulus plan than expected a week ago. Whether he can convince his Republican colleagues to get on board remains to be seen. More to the point, the capricious nature of fiscal negotiations over the past few months could once again come into play and scuttle the latest proposal. Even so, the markets seem to be taking a longer view, looking beyond the elections when cooler heads are ultimately expected to cobble together a much-needed stimulus package.

FINANCIAL INDICATORS

INTEREST RATES	October 9	Week Ago	Month Ago	Year Ago
3-month Treasury bill	0.11	0.09	0.12	1.68
6-month Treasury bill	0.13	0.11	0.13	1.68
3-month LIBOR	0.22	0.23	0.25	1.99
2-year Treasury note	0.17	0.13	0.13	1.59
5-year Treasury note	0.34	0.28	0.25	1.56
10-year Treasury note	0.78	0.70	0.67	1.73
30-year Treasury bond	1.58	1.49	1.42	2.20
30-year fixed mortgage rate	2.87	2.88	2.86	3.57
15-year fixed mortgage rate	2.37	2.36	2.37	3.05
5/1-year adjustable rate	2.89	2.90	3.11	3.35

STOCK MARKET				
Dow Jones Industrial Index	28,586.90	27,682.81	27,665.64	26,816.59
S&P 500	3,477.14	3,348.44	3,340.97	2,970.27
NASDAQ	11,579.94	11,075.02	10,853.55	8,057.04

COMMODITIES				
Gold (\$ per troy ounce)	1,934.70	1,904.50	1,948.60	1,492.42
Oil (\$ per barrel) - Crude Futures (WTI)	40.54	36.99	37.30	54.86

ECONOMIC INDICATOR	Latest Month/Quarter	Previous Month/Quarter	Two-Months/ Qtrs Ago	Average-Past Six Months or Quarters
ISM Services Index (September)	57.8	56.9	58.1	52.9
Consumer Credit (August) -- \$blns	-7.2	14.7	16.9	-11.1

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