Air Pocket Risks Developing

Cases continue to surge in Europe, and fatalities are clearly headed higher. New lockdowns are being implemented. Eurozone real GDP could decline in 4Q. Global growth is synchronized (see page 6), so a decline in Eurozone real GDP is a negative read-through for the US.

“France says second lockdown will cut economic output by 15%.”
Air Pocket Risks Developing

Cases in the US continue to move higher. So far fatalities have not moved up, but that’s not to overlook that the level is roughly 800 per day. We’ve been surprised that so far there haven’t been more signs of economic weakness, eg, claims and EVRISI truckers cos survey both improved this week.
Air Pocket Risks Developing  

With cases surging across the country, it’s possible that a decline in consumer confidence could produce a self-fulfilling weakening in economic activity.
Prospects For Stimulus Surprises Rising

With cases up and stocks recently down, prospects for stimulus surprises are rising. In any event, an incredible 623 stimulus initiatives have been suggested around the world over the past year. Here are the latest:

614. Lagarde urges EU to consider recovery fund as permanent tool.  
615. RBA says further policy easing likely.  
616. RBNZ prepared to use all tools to counter inflation.  
617. UK to give more help to businesses.  
618. Japan to compile third extra budget.  
619. Bank of Israel to expand bond purchase program.  
620. ECB seen preparing more aid.  
621. South Korea’s Moon asks for 8.5% increase in budget.  
622. Germany total new aid will be as much as $11.7b.  
623. ECB gives strong December easing signal.

Krishna Guha has been extremely forceful with his view that the Fed has shifted to very stimulative policy. And here are his thoughts yesterday for the ECB:

(Krishna Guha) -- We think the ECB will accelerate the flexible pace of its existing PEPP budget in the coming days – quite possibly straight out of the gate on Friday – and will attempt to crush any incipient widening in sovereign or corporate spreads in a display of overwhelming force.
“Don’t Fight The Fed”

With the pandemic still stalking, many parts of the world economy are in deep trouble. But the Fed balance sheet is up +78% y/y to $7.15t and is likely to end the year at $7.50t. M2 surged +$20b this week and +24% y/y.
Synchronized Global Economy

In the wake of US real GDP at +33.1% q/q a.r. for 3Q, Eurozone real GDP for 3Q was +61.1%.

The pandemic shut the global economy down in 2Q. With reopening, the global economy rebounded in 3Q. China is leading by one quarter.
U.S. Real GDP For 3Q In Perspective

The point here is that the 3Q real GDP rebound reflected many rebounds, eg, S&P earnings.
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This Helps Explain Why S&P Earnings Have Been Strong

This chart is exaggerated, but with real GDP of +33.1% q/q a.r. and the GDP deflator +3.6%, nominal GDP was an even more stunning +38.0%.
Still Resilient

EVRISI’s proprietary surveys for Europe and China company sales were unchanged this week, both in up trends.
Total Continuing Claims Improving But Still Very Elevated

All three measures of unemployment claims improved this week, ie, initial claims, regular state continuing claims, and total continuing claims (including pandemic-related benefits). Employment in Oct probably increased +500k.
Solid Carry Into 4Q Real GDP

Real consumer spending surged +1.2% m/m in Sep. If it’s unchanged in Oct/Nov/Dec, then the quarter will show a +4.3% q/q annual rate.
Beyond The Cliff

Real DPI increased a solid +0.7% m/m in Sep and was up +5.5% y/y. Real DPI is on track to increase +0.5% m/m in Oct. Real wages and salaries increased +1.0% m/m in Aug and +0.6% in Sep.
Support For Consumer Spending

The saving rate for Aug was revised up from 14.1% to 14.8% due to a +0.8% upward revision to income.
Significant Inflation Unlikely Anytime Soon

As long as bond yields are below 1.00%, a market moving pickup in inflation seems unlikely. In any event, a typical monetary/inflation sequence would be money growth accelerates, pushing up asset prices, real GDP accelerates and moves above potential GDP, and with demand ahead of supply, inflation accelerates. And now a short-term factor, WTI is back down to $36.
Significant Inflation Unlikely Anytime Soon  Contd

With WTI down, retail gasoline prices are headed down to $1.75. And the Eurozone core CPI in Oct was just +0.2% y/y.
Significant Inflation Unlikely Anytime Soon

The US Employment Cost Index slowed to just +2.5% y/y in 3Q. This index is adjusted for mix shifts.
U.S. Real GDP For 3Q
Starting A New Expansion

We have probably just had a two-month recession, but it’s by far the deepest in the post-war period. The last five expansions have lasted 8 years on average.

<table>
<thead>
<tr>
<th>Recession</th>
<th>Peak To Trough</th>
<th>Expansion</th>
<th>Duration (Yrs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1973-1975</td>
<td>-3.1%</td>
<td>1975-1980</td>
<td>4</td>
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<tr>
<td>1980-1982</td>
<td>-0.5%</td>
<td>1982-1990</td>
<td>7</td>
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<tr>
<td>1990-1991</td>
<td>-1.4%</td>
<td>1991-2001</td>
<td>10</td>
</tr>
<tr>
<td>2001</td>
<td>-0.4%</td>
<td>2001-2007</td>
<td>6</td>
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<tr>
<td>2007-2009</td>
<td>-4.0%</td>
<td>2009-2020</td>
<td>10</td>
</tr>
<tr>
<td>2020</td>
<td>-10.1%</td>
<td></td>
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</tbody>
</table>
Strong Support For Housing

The Census Bureau has warned that readings for household formation for the last two quarters may be distorted by pandemic-related data collection issues.

However, our contact at the Census Bureau said their data collection process returned to normal in Sep and suggested that the household formation reading of 2.40m for Sep probably is correct. If this is true, a significant upward move in household formation is unfolding.

U.S. HOUSEHOLD FORMATION
20 Qtr. Avg. 2020:3Q 1.55

<--- Sep: 2.40m
ELECTION DAY

LEADERSHIP SERIES
Tuesday, November 3, 2020  10:00 AM ET

Presentation by:
Jeffrey Gundlach
Chief Executive Officer, DoubleLine Group

Hosted By:
Ed Hyman, Chairman, Evercore ISI

LINK: EVRISI Leadership Series featuring Jeffrey Gundlach
Jeffrey Gundlach
Chief Executive Officer
DoubleLine Group

Mr. Gundlach is CEO of DoubleLine. In 2011, he appeared on the cover of Barron’s as “The New Bond King.” In 2013, Institutional Investor named him “Money Manager of the Year.” In 2012, 2015 and 2016, he was named one of “The Fifty Most Influential” in Bloomberg Markets. In 2017, he was inducted into the FIASI Fixed Income Hall of Fame. Mr. Gundlach is a summa cum laude graduate of Dartmouth College, with degrees in Mathematics and Philosophy.