



## Stonebridge Economic and Market Update

4/21/2020

Clearly the lockdown in response to the pandemic has been far more destructive to the U.S. economy, even with the massive aid/assistance packages from the government, than shown in my forecast a month ago. If I updated that forecast today, the estimates of quarterly real GDP growth would be far different, although the story would be the same.

In the March forecast, real GDP for the four quarters of 2020 were estimated to be the following: +1.5% (Q1), -1.5% (Q2), -0.8% (Q3), +2.0% (Q4) and +0.3% over the four quarters of 2020. The first stay at home order was issued by California on March 19th, after the forecast was made, which was followed quickly by other states imposing varying restrictions. As a result, the economy deteriorated fast.

Now that we know the extent of the shutdowns, if not the duration, and the prospect of lifting at least some of the restrictions in the near future, we have a somewhat better chance of forecasting the economic outlook. In that regard, I now suggest that the growth rates for the four quarters of 2020 are increasingly likely to be the following: -4.0% (Q1), -25.0% (Q2), +16% (Q3), -0.2 (Q4) and -3.3% over the four quarters of the year.

As a result, earnings growth most likely will be even more disappointing, inflation even lower, and unemployment higher. That said, with the sharp increase in the supply of debt, both public and private, associated with the assistance programs, even with the Fed buying much of it, will most likely prevent longer-term Treasury yields from falling much further and actually cause credit yield spreads to widen out somewhat.

We welcome your calls and if you would like to discuss with your portfolio manager please call our office at 651-251-1000.

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