CHANDLER ASSET MANAGEMENT

Economic highlights from the week ending on October 30, 2020

Shelly Henbest, CFA
Senior Credit Analyst

According to the advance estimate, real US gross domestic product (GDP) grew at an annualized rate of 33.1% in the third quarter (modestly above the consensus estimate of 32.0%), following a 31.4% annualized decline in the second quarter. Third quarter GDP growth was by far the largest annualized gain on record but followed the largest annualized decline in GDP on record in the second quarter, in what has been a highly volatile year for the economy due to the pandemic. Personal consumption expenditures rose 40.7% in the third quarter on an annualized basis, following a 33.2% decline in the second quarter and a 6.9% decline in the first quarter. Despite a strong rebound in economic activity and consumer spending in the third quarter, GDP remains well below pre-pandemic levels. In the third quarter, the economy recovered about 80% of the economic output that was lost in the second quarter, leaving nominal GDP about 2.7% lower than the end of 2019. The consensus estimate for fourth quarter GDP growth is 4.0%, and the pace of growth is expected to steadily decline throughout next year. In our view, there may be downside risk to fourth quarter GDP estimates given a resurgence of the virus and an ongoing delay in additional fiscal relief. We believe the path to a full recovery will be bumpy, but we remain optimistic about continued progression toward therapeutics and a vaccine for the virus which we believe will help propel the economic recovery next year.

Financial market volatility was elevated this week, as multiple economic risk factors and unknowns are colliding simultaneously: a resurgence of the virus in the US and abroad, an unclear outlook for additional fiscal relief, and the upcoming US Presidential election. The Cboe Volatility Index (designed to be an estimate of expected volatility in the S&P 500 index) and the ICE BofA MOVE Index (a measure of U.S. Treasury yield volatility) were both near their highest levels since June this week. The S&P 500 index is down more than 6% week-over-week (at the time of this report). With just days to go until the election, we expect volatility to remain elevated next week. Notably, we believe the Federal Reserve remains poised to provide liquidity and support to the financial markets if necessary.

Next Week

ISM Manufacturing, Construction Spending, Factory Orders, ISM Services, International Trade, FOMC Meeting, Productivity & Costs, Consumer Credit, Employment

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