BNY MELLON

Aerial View

Morning Briefing

Nov 09, 2020

Monday Morning Marco - Biden to Deal With Double Dip

- **The good jobs report also reveals worrying long-term trends in unemployment**
- **A COVID-19 double dip and reduced odds of large stimulus will move the Fed towards more QE**
- **Persistent selling of USTs and short positions mean yields will stay contained**

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Strong Jobs Report Betrays Long-Term Unemployment Problem

With Joe Biden projected the President-elect, attention turns to the real economy and the economic situation. He will most likely be operating with a split Congress, as the two remaining seats to be filled (both in Georgia) will be difficult for the Democrats to flip. This means ambitious stimulus and fundamental economic reform will be an uphill battle.

The October jobs report was stronger than expected, and while the pace of job creation slowed down, it did so at a much lower rate than many expected. The unemployment rate fell a full percent, from 7.9% to 6.9% and this was against the backdrop of an increase in labor force participation, which is an encouraging sign: more people are re-entering the labor force and finding jobs.

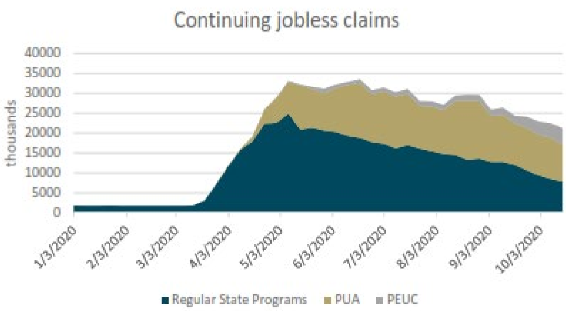
Even with 138,000 federal government jobs being shed (including 147,000 census workers whose temporary jobs rolled off), overall hiring was 638,000, as those government job losses were offset by over 900,000 private sector job gains.

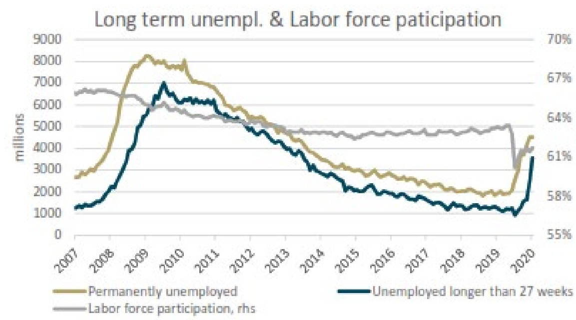
More troubling data appears when looking at the details of the household survey. As businesses shut, the longer they stay closed the more job losses are becoming permanent.

For the first time since the pandemic, the number of permanent job losses (4.5 million) is outpacing the number of temporary losses (3.2 million). And the length of unemployment is now increasing, with the median duration now over 19 weeks, comparable to the levels reached during the GFC 12 years ago.

The number of long-term unemployed (over 27 weeks) is on the rise as well, rivaling the rate of increase in this category during the GFC. The accompanying chart also shows that despite the slightly higher labor force participation rate this month, it is still well below pre-pandemic levels. People – particularly females – are leaving the labor force and not coming back in.

Long-Term Unemployed Increasing





Source: BNY Mellon Markets, Bloomberg; data as of November 6, 2020

The jobless claims data are also pointing to a scarred labor market. Initial claims, at 751,000 are still stubbornly high, indicating new layoffs continue to proceed apace. While continuing claims have fallen significantly from their height of well above 20 million, during the darkest days of the early summer to just under 7.3 million, some of this is due to the permanence of the job losses discussed above.

Workers are exhausting the length of their unemployment insurance benefits. As the accompanying charts also show, continuing claims for two special pandemic-related insurance programs are rising, keeping the overall level of total continuing claims elevated, just a third below their peak from this summer.

> ***Long-term unemployment is emerging as troubling feature of the labor market***

Looming Double Dip Implies More QE by Early 2021

Even the short-term view is becoming problematic, as the number of COVID-19 cases in the US surges over 100,000 per day. High frequency data is pointing to a global slowdown – especially in advanced economies, and the potential for a double dip.

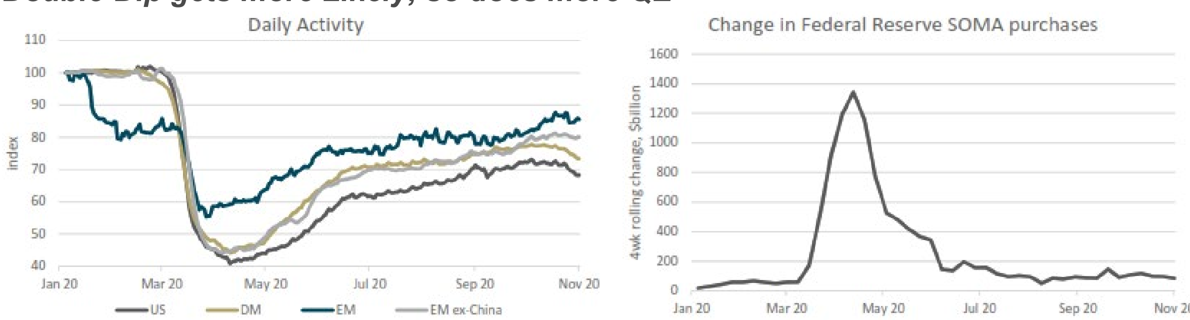
A daily indicator from Bloomberg, which includes a variety of big data inputs, demonstrates the flattening in activity around the world, and the beginnings of downturns, especially ex-China (see the accompanying chart).

The November FOMC meeting on Thursday provided very little to sink our teeth into, which was hardly a surprise given timing of the meeting, so soon on the heels of the presidential election.

There had been some expectation that the Fed would provide hints of potential expansion of its asset purchases above the approximately $80bn per month, and/or changing the composition and duration of QE treasury purchases.

We thought it would be too soon for that discussion, although we do think it will eventually happen. Instead, Chair Powell hinted at what we would describe as “talking about talking about expanding QE options” which we regard as an initial step toward what we ultimately think will be an early 2021 move.

Double-Dip gets more Likely; so does more QE



Source: BNY Mellon Markets, Bloomberg; data as of November 4, 2020

We view the odds for stimulus during the lame duck session of Congress as quite low, and with the chances that the two Georgia Senate seat runoffs result in a Republican Senate, anything big in early 2021 is unlikely. The Fed has been calling for fiscal spending since the summer, and its forecasts had assumed some form of additional stimulus.

The coronavirus double-dip is still a real threat, and its likelihood is increasing as coronavirus cases rise and the fiscal support from the springtime CARES Act starts to peter out.

We pointed out the pressure on the jobs market under the surface, and we think the Fed’s reaction function is as much about jobs as it is about inflation, so we expect additional QE will be on the agenda.

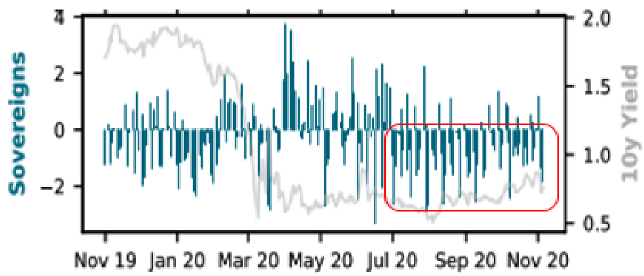
> ***Lack of stimulus and a potential double dip should keep yields contained***

Long Yields Will Stay Low as Positions are Short

With likelihood of divided government and therefore a smaller – if any – stimulus on the way, as well as building expectations that the Fed is likely to pursue either additional QE or longer-duration purchases, our iFlow data shows opportunity in US Treasuries.

We have seen steady, persistent selling of US Treasuries since mid-summer, coinciding with a slow and constrained, but clear upward trend in long yields from their early August lows of 50.6 basis points to a recent high of nearly 90 bps on election day itself.

Real Money Selling USTs, Leveraged Positions Record Short



Source: BNY Mellon Markets, iFlow, Bloomberg; data as of November 6, 2020

This suggests real money positioning is quite light in Treasuries. CFTC futures also reveal record shorts of USTs going back over 20 years. There is plenty of room for both leveraged and real money to add to bonds, given the macro environment.

Please direct questions or comments to:

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