



## Economic Review - Fourth Quarter 2020

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### Summary

The state of the general economy can help or hinder a business' prospects by influencing the demand for its goods and services. The economy also affects the availability and price of inputs such as capital and labor. The prevailing economic conditions therefore directly affect the value of a business at a specific point in time. The 128-month economic expansion from June 2009 to February 2020 was the longest since the 1850s.<sup>1</sup> However, the COVID-19 global pandemic has suddenly and severely affected economies and markets around the world, and the U.S. economy entered a recession in February 2020.<sup>2</sup>

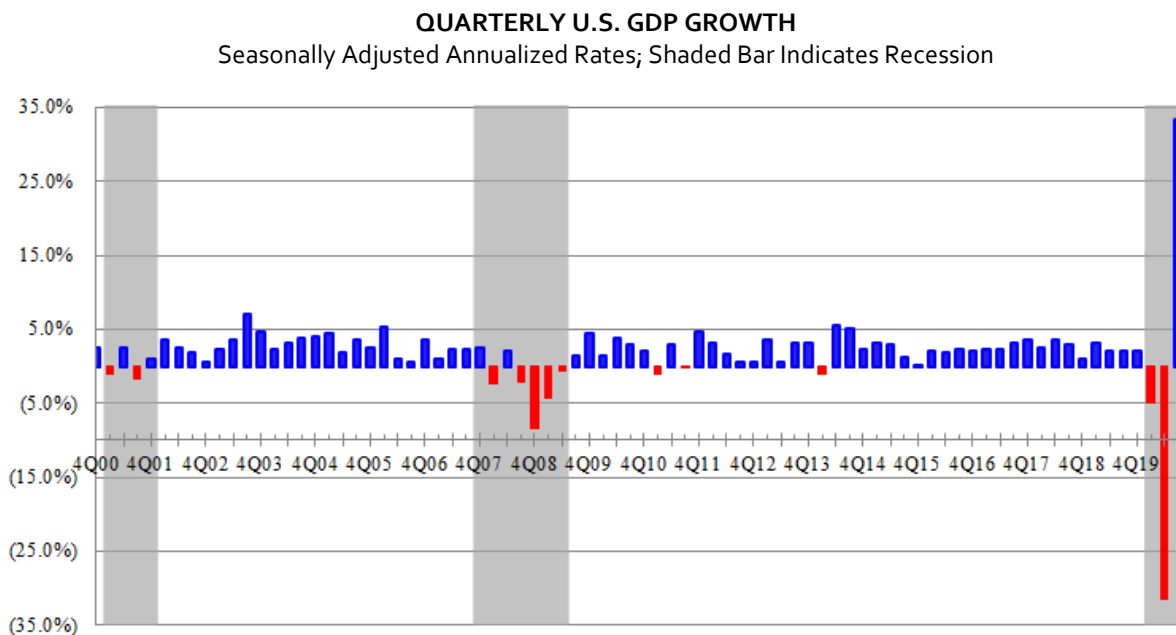
The Federal Open Market Committee (the "Committee") of the Federal Reserve held two meetings during the fourth quarter of 2020; one in November and one in December to discuss the additional measures being taken to support the economy, which include:

- Maintaining the target range for the federal funds rate at zero-to-0.25 percent.
- Continuing its purchases of Treasury and mortgage-backed securities (approximately \$80 billion per month and approximately \$40 billion per month, respectively), which combined with other extraordinary measures has brought the Federal Reserve's total assets to \$7.4 trillion at year-end 2020, from \$4.1 trillion at year-end 2019.
- Extending the temporary repurchase facility for foreign and international monetary authorities through September 30, 2021.



## Gross Domestic Product

The U.S. Bureau of Economic Analysis estimates that real gross domestic product (GDP)—the output of goods and services produced by labor and property located in the United States—increased at an annual rate of 33.4 percent in the third quarter of 2020, as the economy recovered from a 31.4 percent decline in the second quarter of 2020 due to the coronavirus pandemic. The Federal Reserve publishes estimates of GDP growth, which it projects to be negative 2.4 percent for full year 2020. The Federal Reserve expects a moderate recovery from the pandemic, with GDP growth of 4.2 percent, 3.2 percent, and 2.4 percent in 2021, 2022, and 2023, respectively, before settling at 1.8 percent annual growth for the long-run. Quarterly GDP data for the preceding 20 years is shown in the following figure.



Sources: U.S. Bureau of Economic Analysis and National Bureau of Economic Research. GDP percent change is based on chained 2012 dollars.

## Employment

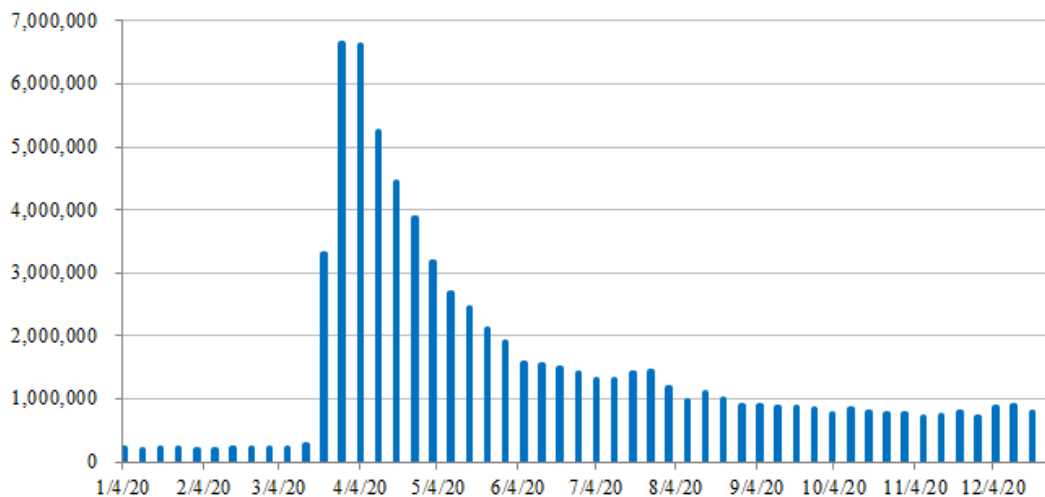
From March 2010 (the end of the 2008–2009 recession) to February 2020, 23.2 million net non-farm jobs were created.<sup>3</sup> As recently as February 2020, the unemployment rate of 3.5 percent was near an all-time low. A more expansive measure of labor underutilization, including discouraged workers who have left the workforce and part-time workers who would prefer full-time work, was at a 20-year low of 6.7 percent in December 2019.<sup>4</sup>

Beginning in March 2020, national, state, and local governments began instituting lockdowns that forced the closures of many businesses and restricted the free movement of citizens, and a wave of layoffs and furloughs began. Initial unemployment claims that had averaged 218,000 per week in



2020 prior to the COVID-19 pandemic, spiked to a high of 6,648,000 for the week ending March 28, 2020, and were 782,000 for the week ending December 26, 2020 (the latest available as of December 31, 2020). Although initial claims have subsided from the extreme levels in late March and early April 2020, they are still significantly above pre-pandemic levels. Weekly initial unemployment claims for 2020 are shown in the following figure.

### WEEKLY INITIAL UNEMPLOYMENT CLAIMS



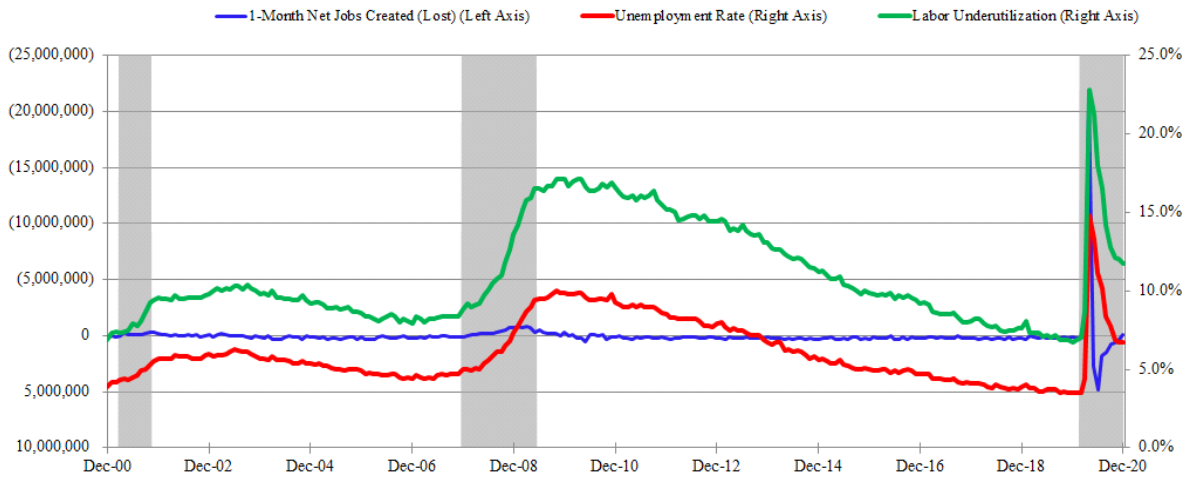
Source: Federal Reserve Bank of St. Louis.

Unemployment and underemployment restrain economic growth as consumers are unable or hesitant to spend. The past 20 years of job creation, employment, and underemployment data are presented in the following figure.



### MEASURES OF STRESS IN THE LABOR MARKET

Shaded Bar Indicates Recession



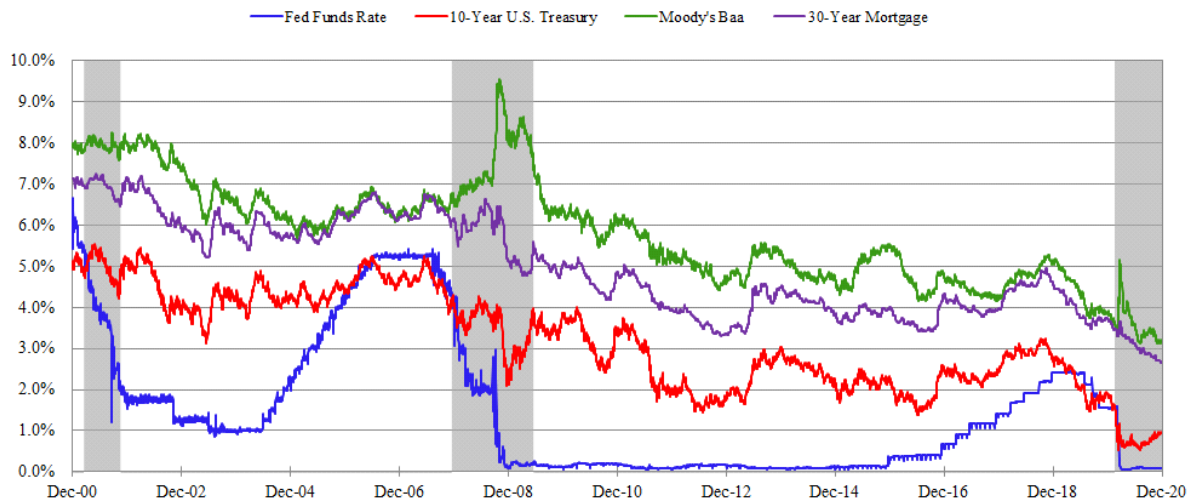
Sources: Department of Labor, Bureau of Labor Statistics, and National Bureau of Economic Research. Data represents non-farm payrolls.

### Interest Rates

Interest rates have generally remained near historic lows in the fourth quarter, after dropping sharply since the onset of the pandemic. Investors have fled to safe haven assets and the Federal Reserve has expanded its purchase of bonds and mortgage-backed securities. The Moody's Baa rate and the 30-year fixed home mortgage rate reached their all-time lows in the fourth quarter of 2020. The past 20 years of historical interest rate data are shown in the following figure.

### SELECTED INTEREST RATES

Shaded Bar Indicates Recession



Source: Federal Reserve Statistical Release H.15 (519) Selected Interest Rates.



## Stock Market Activity

Despite a sharp drop in the beginning of the year, by the end of the fourth quarter of 2020, all major indices regained their losses and posted positive returns for the year. Volatility remained relatively high in the fourth quarter, but continued to subside from the extremely turbulent levels in the first half of 2020. All the major indices ended the fourth quarter with double digit gains. The Russell 2000 Index was the best performing index in the fourth quarter due to the strong performance among small-cap stocks. The NASDAQ Composite Index was the best performing index for the year due to the robust technology sector. Total returns for U.S. stock indices are shown in the following figure.

### TOTAL RETURNS OF MAJOR U.S. STOCK INDICES

Index	Fourth Quarter 2020	Year to Date
S&P 500	12.1%	18.4%
Dow Jones Industrial Average	10.7%	9.7%
NASDAQ Composite (1)	15.4%	43.6%
S&P MidCap 400	24.4%	13.7%
Russell 2000	31.4%	20.0%

*Note:*

(1) Return represents principal only.

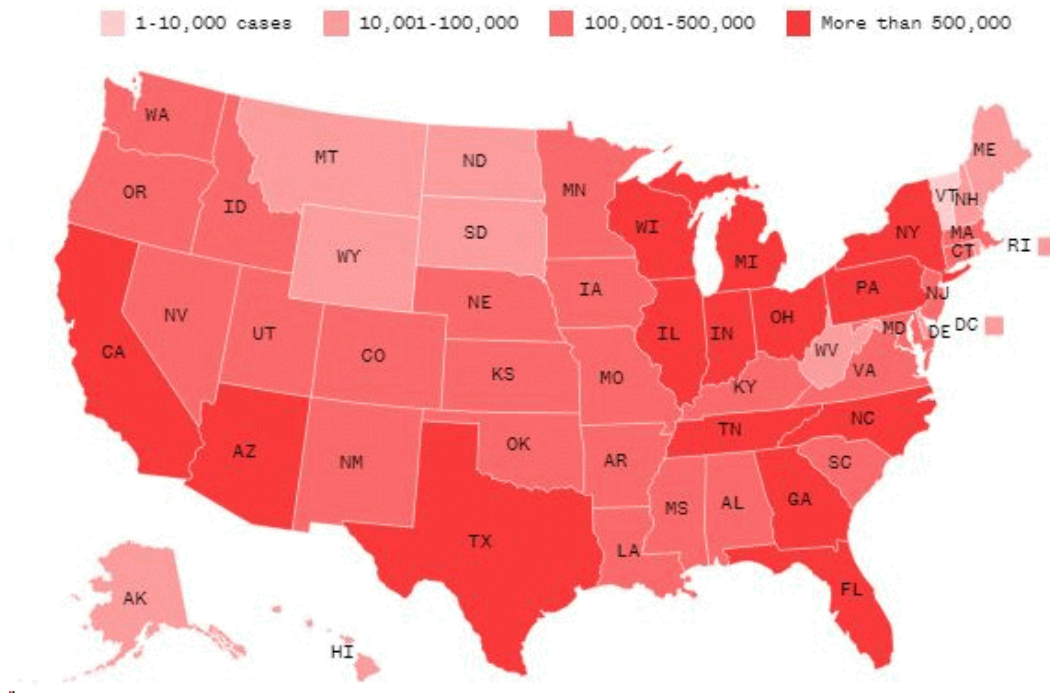
## Coronavirus Pandemic and Government Response

- The coronavirus continued to impact the United States and the global economy throughout the fourth quarter of 2020, and the United States has not exited the recession it entered in February 2020.
- As of December 29, 2020, COVID-19 confirmed cases have surpassed over 79 million people and caused over 1.7 million deaths globally.<sup>5</sup>
- Much of Europe has reinstated restrictive policies to help prevent the rise of new cases, including curfews, mask policies, and limits on gatherings. However, many states throughout America have been hesitant to reinstate some of their initial restrictive policies, largely due to concerns over the long-run economic impacts of those policies.
- In the United States alone, confirmed cases were approximately 18.5 million and over 300,000 deaths were attributed to the pandemic.<sup>6</sup>
- New COVID-19 cases in the United States have increased throughout the fourth quarter. As of December 27, 2020, there were approximately 1.3 million new cases in the preceding seven days, compared to 0.3 million new cases in the week ending September 27, 2020.<sup>7</sup>



- While cases have been on the rise, there is increasing optimism as the first doses of a COVID-19 vaccine were administered toward the end of the fourth quarter of 2020. By the end of the fourth quarter there were over 5 million vaccine doses administered in the U.S. alone.<sup>8</sup>
- The number of COVID-19 cases across each state in the United States as of December 31, 2020, is shown in the following figure.

#### CONFIRMED COVID-19 CASES IN THE UNITED STATES



Source: NBC News.



Disclaimer: this article has content that is general and informational in nature. This document is not intended to be accounting, tax, legal, or investment advice. Data from third parties is believed to be reliable, but no assurance is made as to the accuracy or completeness.

*Endnotes:*

1. National Bureau of Economic Research.  
<<https://www.nber.org/research/data/us-business-cycle-expansions-and-contractions>>.
2. Ibid.
3. Bureau of Labor Statistics. "Employment, Hours, and Earnings from the Current Employment Statistics survey (National)."  
<[http://data.bls.gov/timeseries/CES0000000001?output\\_view=net\\_1mth](http://data.bls.gov/timeseries/CES0000000001?output_view=net_1mth)>.
4. "U-6 total unemployed, plus all persons marginally attached to the labor force, plus total employed part time for economic reasons, as a percent of the civilian labor force plus all persons marginally attached to the labor force." Reported on a seasonally adjusted basis.
5. World Health Organization, "COVID-19 Weekly Epidemiological Update," December 29, 2020.  
<<https://www.who.int/publications/m/item/weekly-epidemiological-update---29-december-2020>>.
6. Ibid.
7. Ibid.
8. Centers for Disease Control and Prevention, "Trends in Number of COVID-19 Vaccinations in the U.S.," December 31, 2020. <<https://covid.cdc.gov/covid-data-tracker/#vaccination-trends>>.