

City National Rochdale®

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# The **BOTTOM LINE**

Relevant Insights for the Savvy Investor

NOVEMBER 2020

## ECONOMIC HIGHLIGHTS

The economy, which suffered a devastating blow earlier in the year, has been bouncing back with gusto. After falling 10.7% in the first half of the year, third-quarter GDP shows the economy has recouped a majority of that loss and now stands just 3.5% below the previous peak of fourth-quarter 2019 (Chart 1).

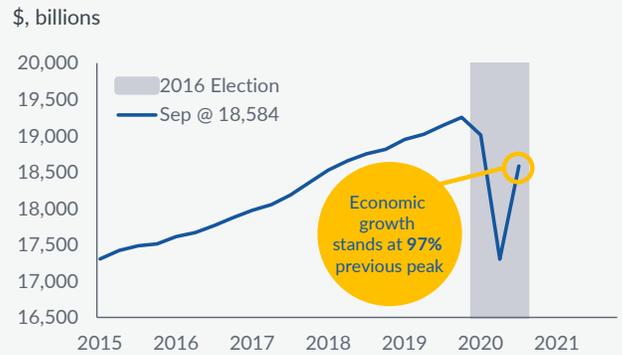
The remarkable recovery has been primarily a result of robust household spending. In the two major categories of expenditures, goods and services, households are now spending 6% more on goods than during the peak before the pandemic (Chart 2). Unfortunately, spending on services remains 7% below the previous peak. The service sector is far more a victim of social distancing. There has been a significant reduction in the number of people who fly, stay in hotels, go out to dinner, visit sporting events/movies/theater/amusement parks, etc. These are all service-based businesses that are now operating below capacity or not operating at all.

This lower level of demand has resulted in a slower rebound in employment (Chart 3). As a result, payrolls now stand at 54% of the previous peak, despite the economy recovering at a faster clip.

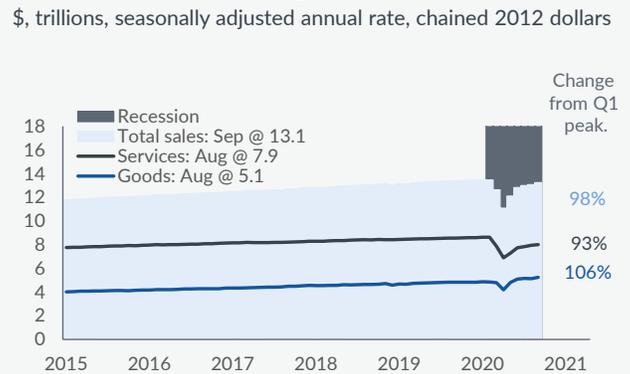
Looking at the fourth-quarter economic data released, the economy is growing faster than the long-term trend. The October unemployment rate fell a full percentage point to 6.9%, inflation remains muted, and consumer spending remains strong.

Although the economic fundamentals are in good shape, the pace of future economic growth depends on the path of the coronavirus. The number of confirmed cases is roaring back (Chart 4). With the onset of colder weather, there is an increasing chance of even more cases. While most people are wearing a mask, social distancing, and avoiding large crowds, so long as some are not, the virus will continue to spread. The recent news of a vaccine is encouraging and that should help slow the spread of the virus.

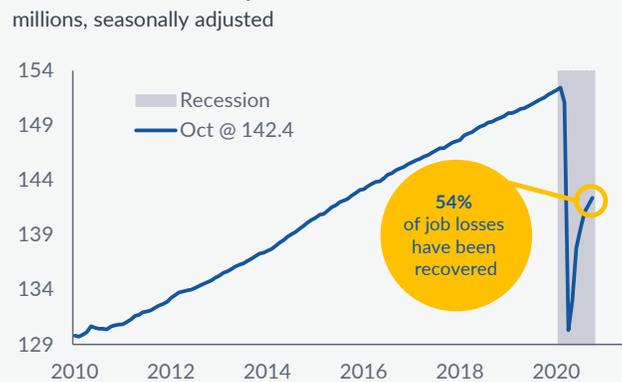
**CHART 1: GDP**



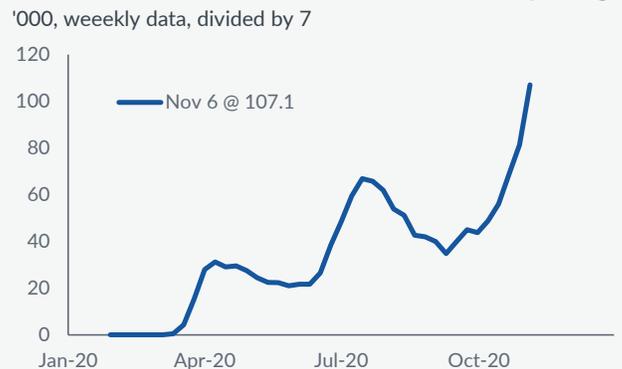
**CHART 2: Personal Consumption**



**CHART 3: Nonfarm Payrolls**



**CHART 4: COVID-19 U.S. — Confirmed Cases: Daily Change**



Source: Bureau of Economic Analysis, Bureau of Labor Statistics, CDC.

# COVID-19

COVID-19 continues to be the primary risk to the growth rate of this recovery. As the case count mounts, people are apt to stay at home more and to spend less. Although we do not expect a severe lockdown, some areas may require it, as they did this past spring. Fortunately, people are getting better about wearing a mask, social distancing, and avoiding large crowds — all tools to minimize the virus's spread.



## LABOR

The job market has been robust. At 6.9%, the unemployment rate is 0.7 ppts below the September Fed's projection of the year-end unemployment rate.<sup>1</sup>



## INFLATION

Price pressures remain in high demand products (e.g., paper products) and are falling in low demand areas (e.g., airline tickets). Overall, core prices remain muted at 1.6% y-o-y.<sup>2</sup>



## THE FED

The Fed is holding pat with interest rates at 0.125%. Despite the recent gains in the economy, they believe the pandemic poses a considerable risk for the economy.<sup>3</sup>



## STOCK MARKET

The stock market has been rallying following the election results. Investors are welcoming the prospect of a divided government, which almost eliminates the likelihood of substantial tax increases and sweeping regulatory reform.



## FEDERAL DEBT

Due to increased stimulus spending, the total amount of debt owed by the U.S. Treasury now exceeds the size of the economy, for the first time since World War II. The ballooning debt isn't a concern in the short-term because the alternative of no stimulus would be worse.<sup>4</sup>



## U.S. ELECTION

The election is behind us, and that has removed a significant amount of uncertainty from investors. That, combined with positive news on a vaccine, has been pushing up stock prices.

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**Important Disclosures**

Index Definitions: The Standard & Poor's 500 Index (S&P 500) is a market capitalization-weighted index of 500 common stocks chosen for market size, liquidity, and industry group representation to represent U.S. equity performance.

<sup>1</sup> Federal Reserve Bank, Bureau of Labor Statistics

<sup>2</sup> Bureau of Labor Statistics

<sup>3</sup> The Federal Reserve Bank

<sup>4</sup> U.S. Treasury, Bureau of Economic Analysis

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