U.S. Economic Outlook
Challenges For The Next President

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S&P Global
Ratings

Pandemic Fallout– Not Over Yet

Slow Climb Out Of The Hole

1. Massive adverse shock: sudden, sharp drop of activity and employment
2. Unprecedented policy response – both fiscal and monetary
3. Economic outlook dependent on interaction between mobility, restrictions, speed of reopening, and speed of vaccine.

   Big questions: Will fiscal stimulus be extended? What about the trade dispute with China?
4. Balance of Risk: Downside. Recession risk 30% to 35%
5. Longer the duration of virus this worse the outcome

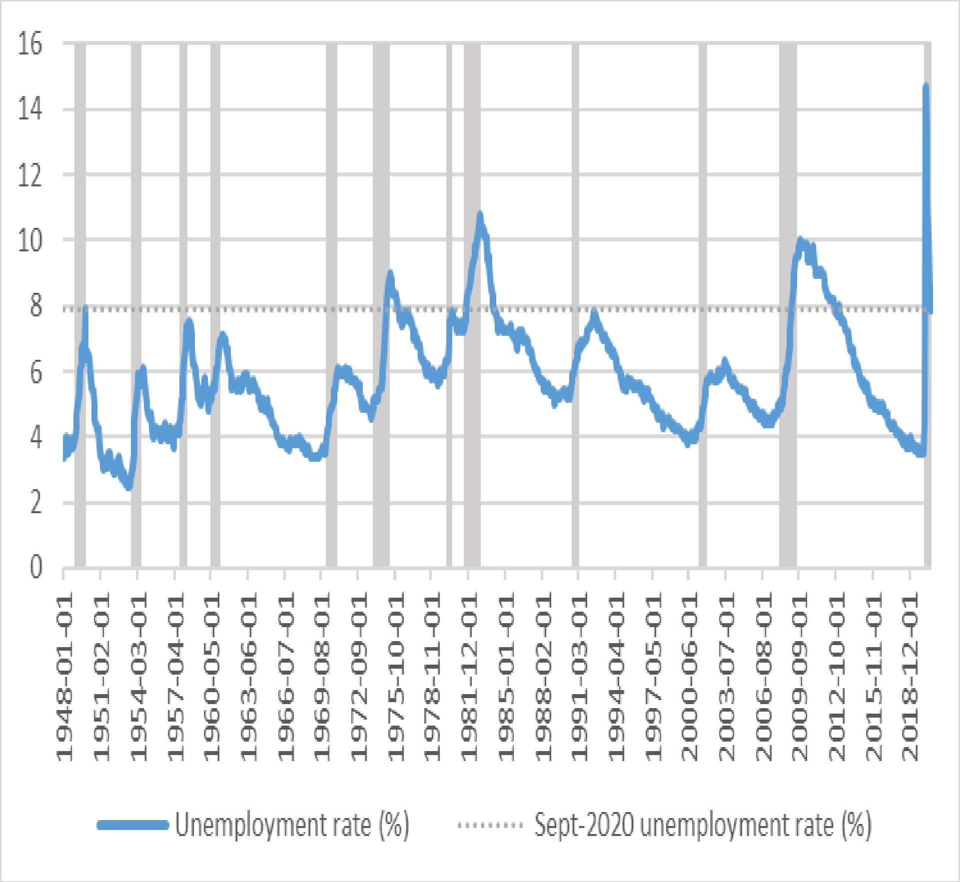
   Policy fatigue sets in, scarring sets in, which eats into longer-run growth equilibrium.

   Temporary job loss turns into permanent the longer this persists
6. A “V” or “U” recovery turns into a balance sheet shock with “L” recovery.

The harsh reality is the next U.S. president has his work cut out for him

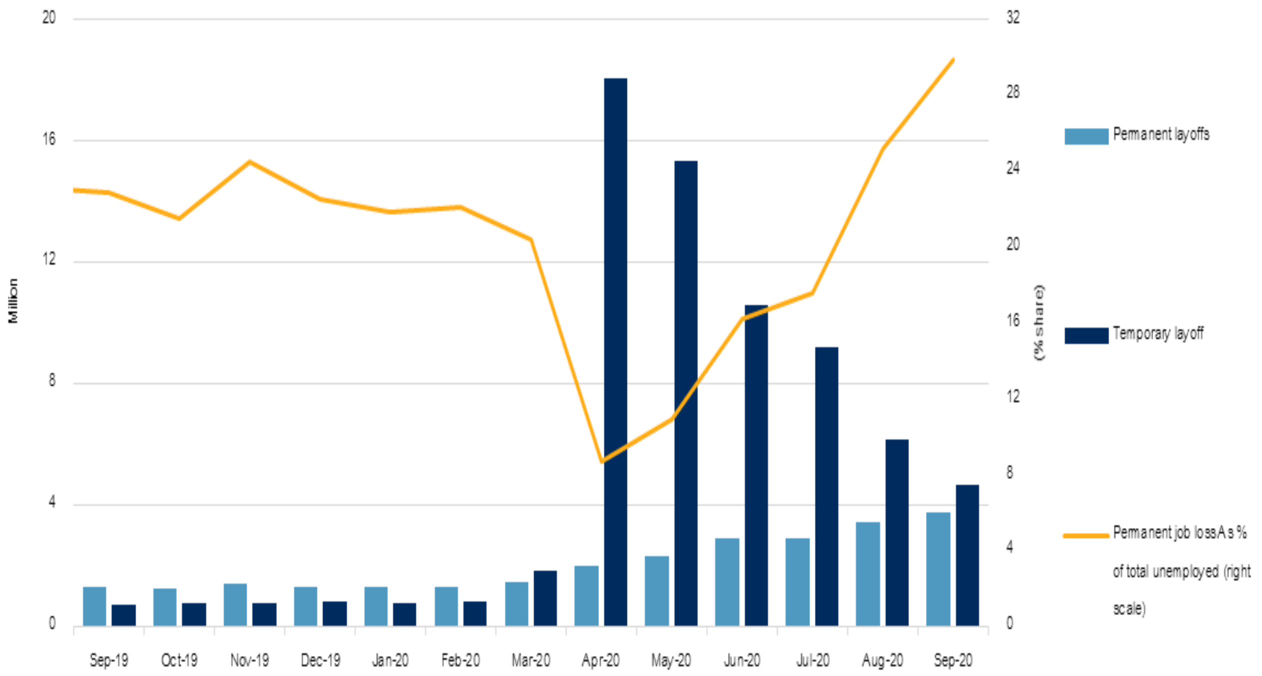
Amidst a COVID-19 Surge, US Jobs Market Challenges

The unemployment rate is equal or higher than 8 of the last 11 recession peaks through 1948



Source: BLS data, St. Louis Fred, NBER

Over 30% Of U.S. Unemployed Permanent Job Losers

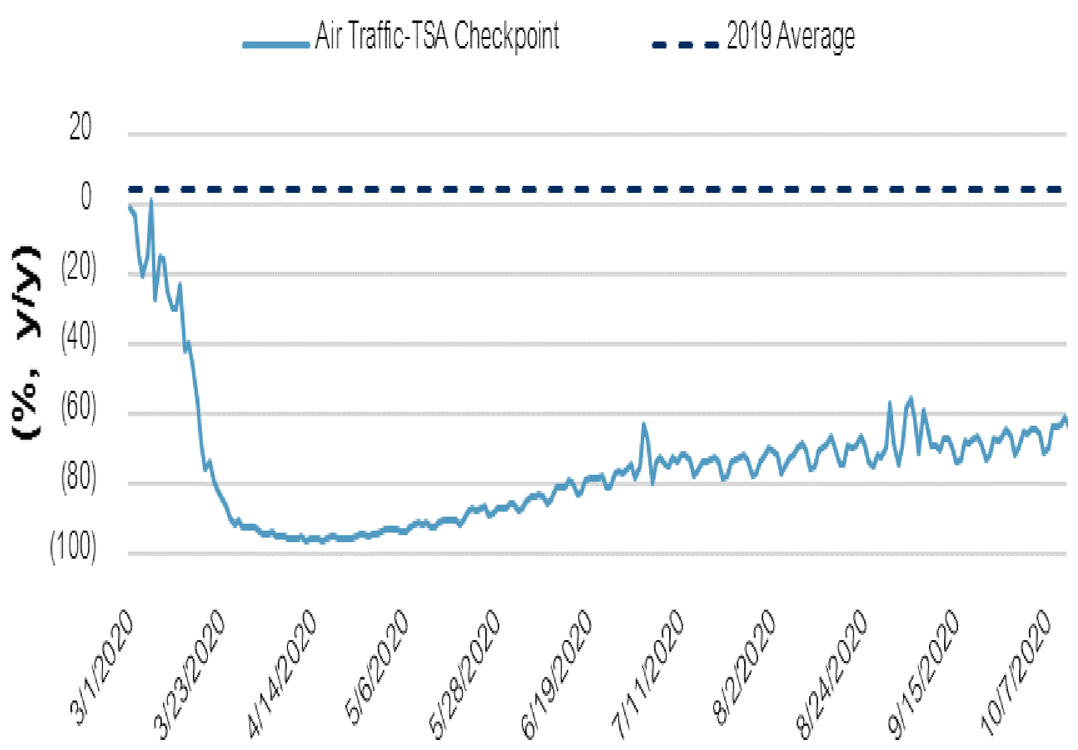


Source: Bureau of Labor Statistics, S&P Global Economics

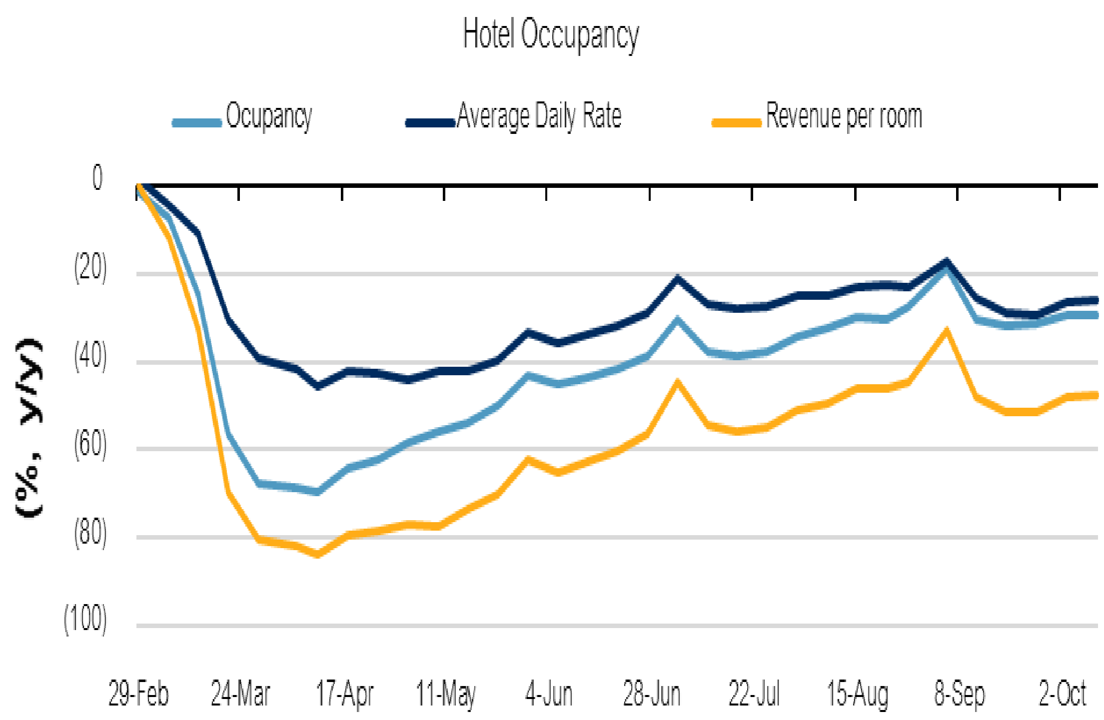
60% of U.S. businesses in Yelp, once temporarily closed, now permanently closed

Most Non-traditional Real-time Indicators Found Bottom

But the climb to pre-crisis highs remains a challenge for many



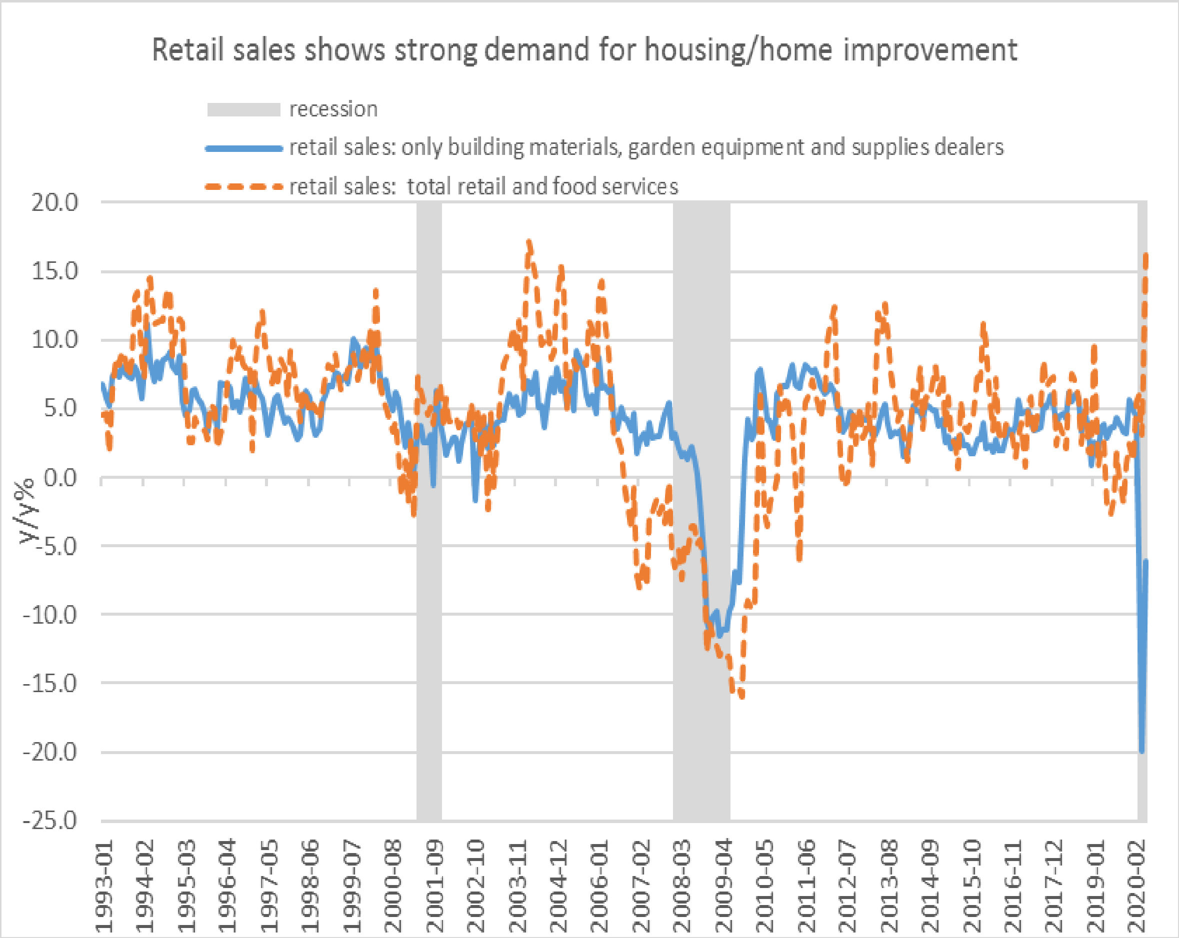
Source: TSA, S&P Global Economics, Data as of Oct 14, 2020

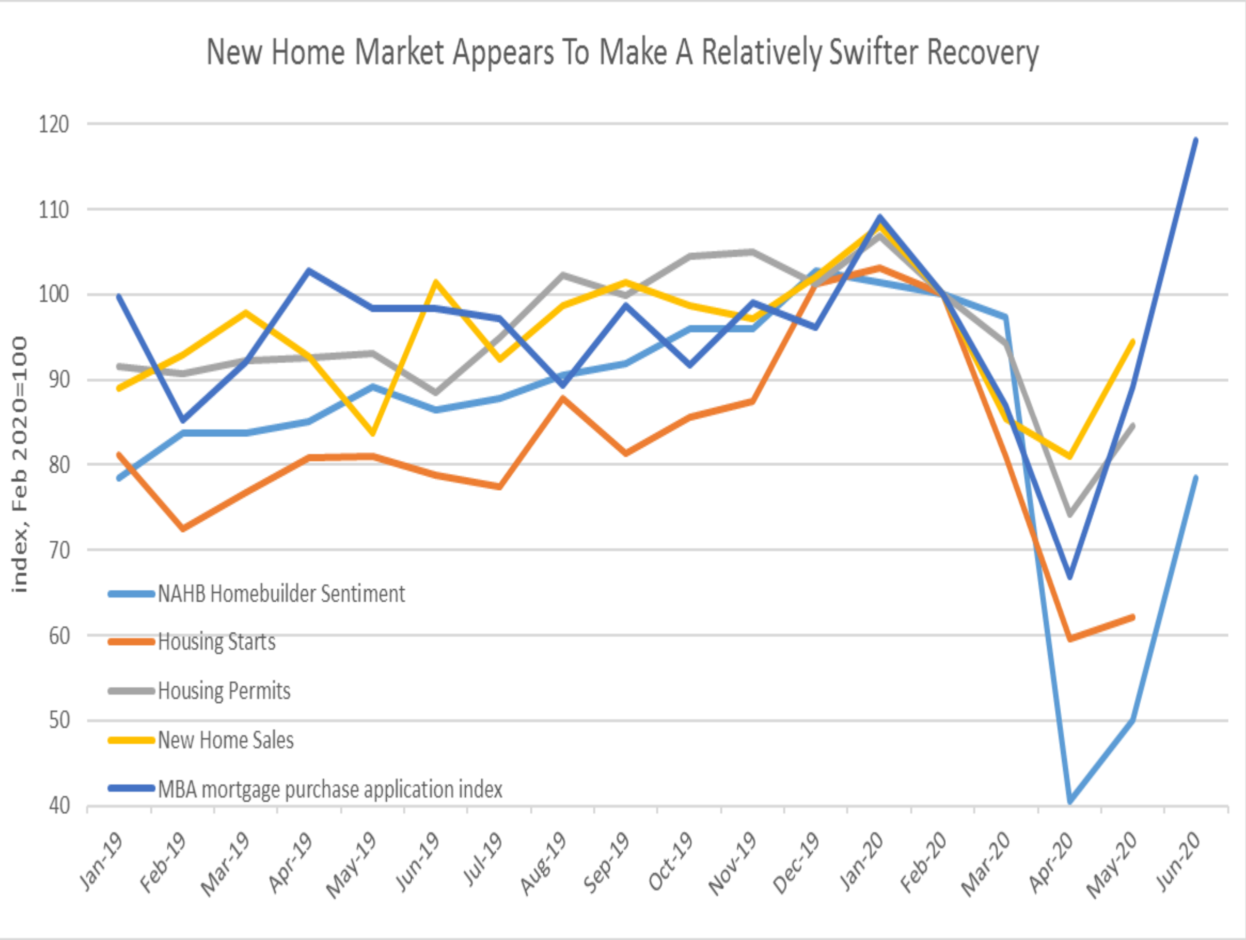


Source: STR, Data as of Oct 10, 2020.

Housing-related Economic Activity Signals V-Shaped Recovery

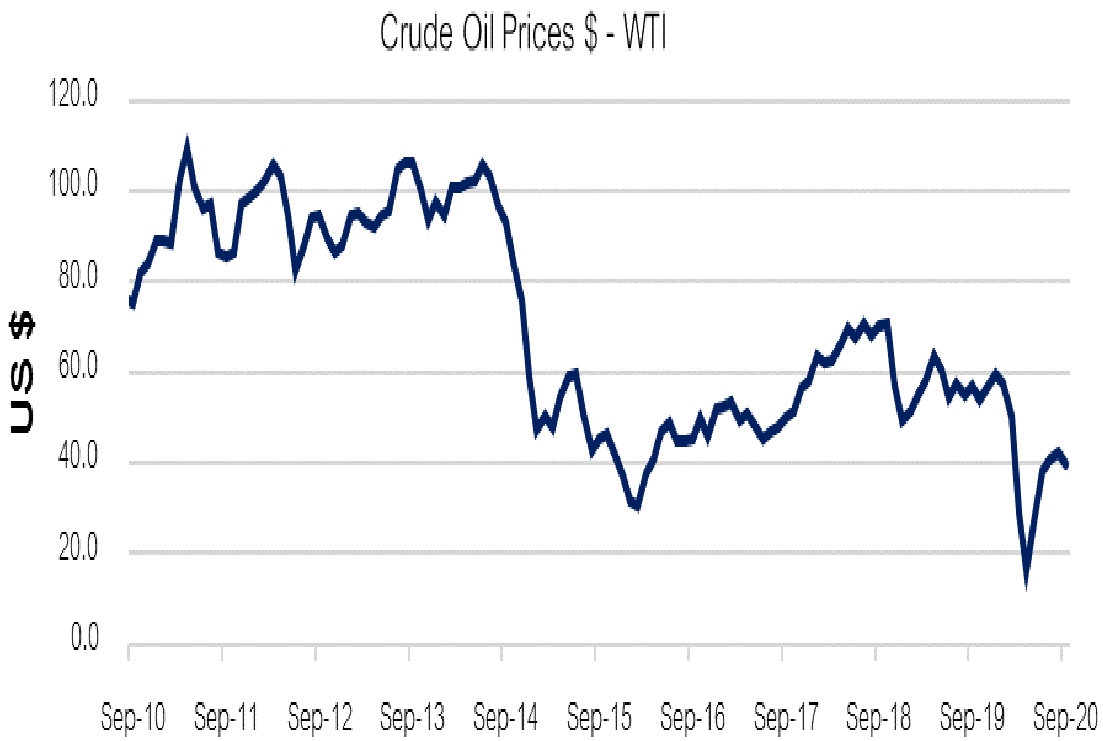
But the climb to pre-crisis highs remains a challenge



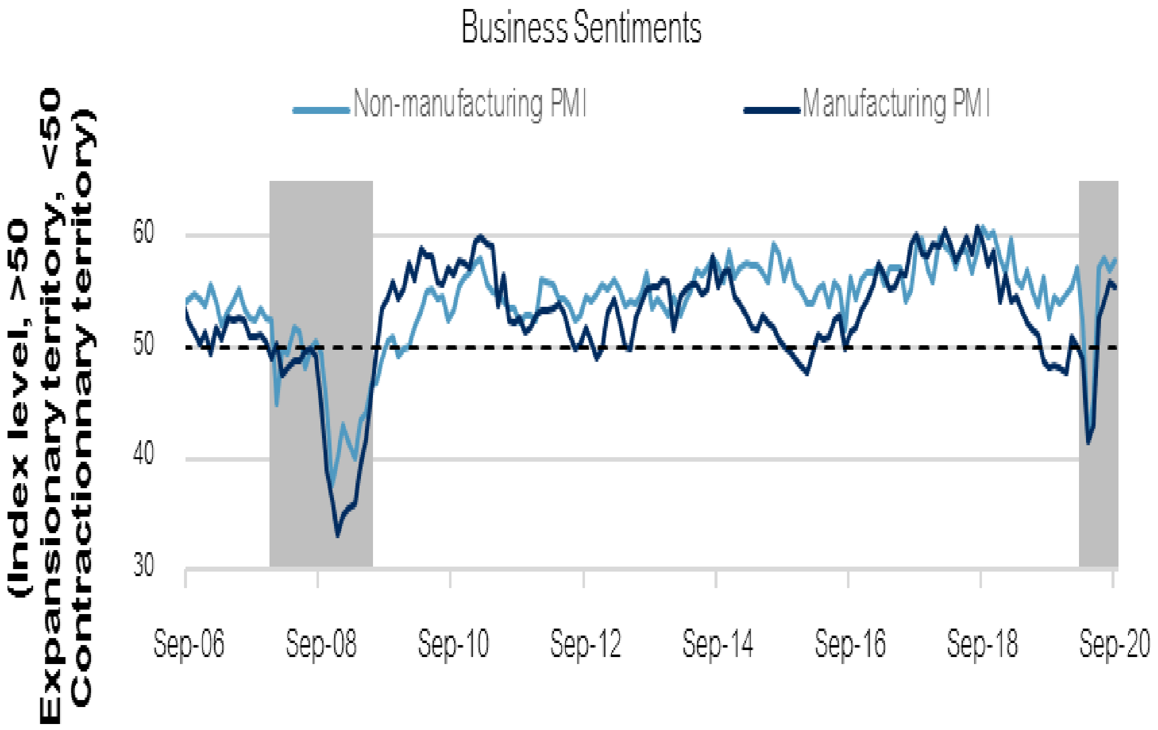


U.S. Private Sector Conditions Improving, For Now

West Texas Crude Oil Price and business sentiments improve



Source: St.Louis FRED



Source: ISM, S&P Global Economics

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U.S. Government Policy Action Helps Avert Disaster

Fed Policy: Use its balance sheet and an alphabet soup of facilities

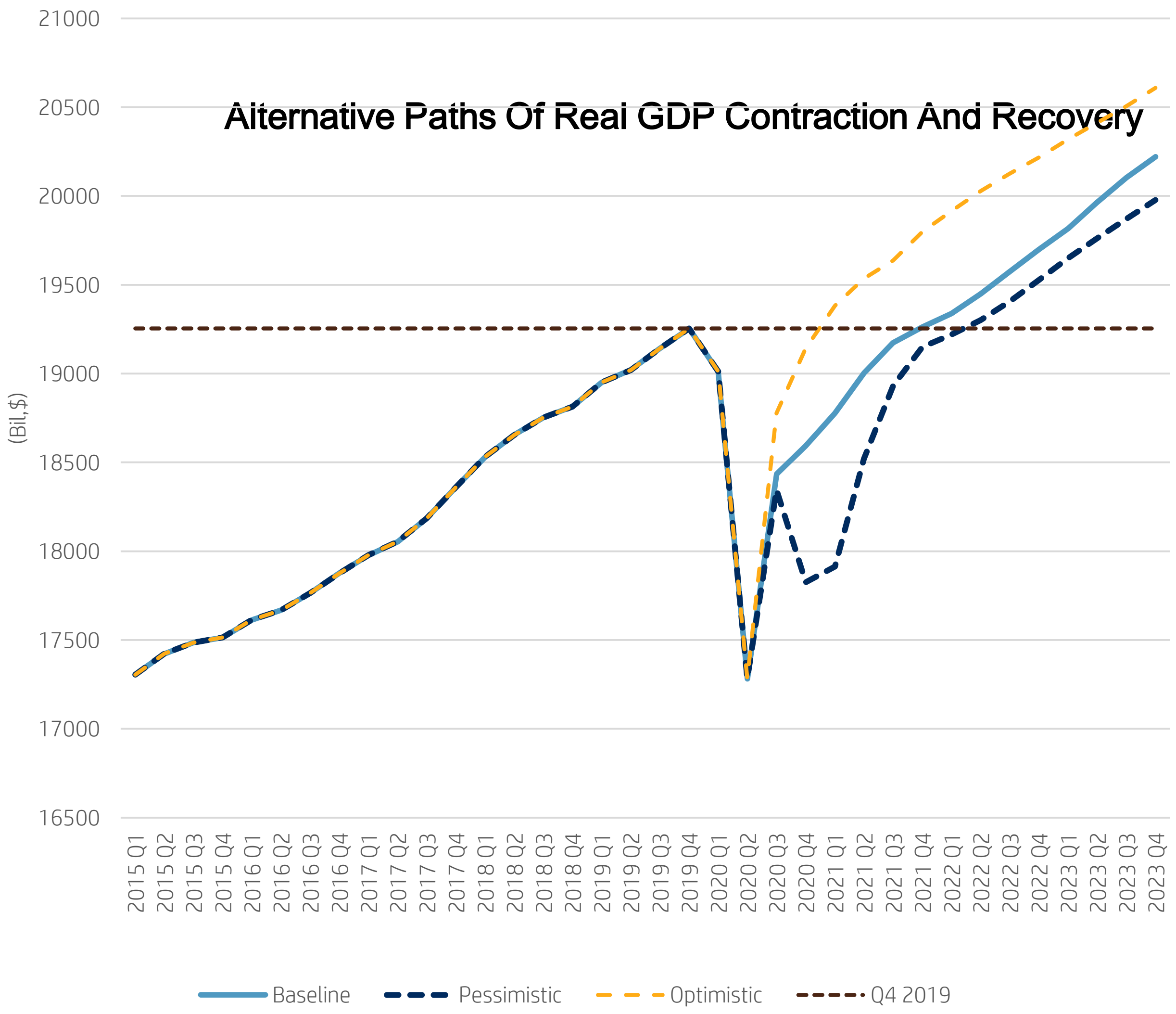
- Cut rates to zero, buy assets to hold down risk-free yields
- Stand ready to intervene in CP, MM and even corporate (IG) credit markets to support liquidity and ensure that markets function reasonably well.
- Macro-Prudential, eased capital burdens to allow banks to lend and absorb shocks.
- Fed's new monetary policy strategy allowing a temporary inflation "overshoot" Very meaningful

Fiscal: Surprisingly quick to respond in March, despite domestic squabbles

- Earlier lifeline to households and businesses in need
- Now no agreement in Congress on extending stimulus as viral cases rise and initial jobless claims remain high
- Both presidential candidates support an infrastructure package…we'll see where it goes.

Is the job done? The risks of a mistake are very high and extremely costly…

Slow Climb Out Of The Hole



- **End of the cycle.** The longest economic expansion in U.S. history killed by Covid-19. We forecast GDP will drop by 4.0% in 2020, down and up just 3.7% in 2021. Won't reach pre-crisis 2019 levels until 4Q 2021.
- **Three risks remain.** : **No coronavirus vaccine** yet available as U.S. heads into flu season, **No new fiscal stimulus**, and **trade tensions with China on the rise**.
- **Double-Dip.** Downturn reemerges in the fourth quarter as **COVID-19 cases flare** up and the government's **stimulus "bridge" only made it halfway to the other side**. GDP will drop by 5.1% in 2020, up by just 2.8% in 2021.

Source: BEA and S&P Global Economics forecasts.

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Presidential Election 2020: Economic impact of Policy Proposals

- Despite ugly rhetoric, surprising similarities in policy proposals for trade and infrastructure
- Similarities end in policy proposals for taxes, health care regulation, immigration.
- Promises are not policy: big structural changes depend on whether congressional majority is same as the president
- The President's first task on day 1: steering the American population and economy back to health.
- The Administration, Congress and the Fed need to work together to get U.S. out of a potential downturn as the recovery has slowed.
- Additional stimulus is needed as a bridge to the next stage of the recovery.

The harsh reality is the next U.S. president has his work cut out for him

US-China Phase One Deal Has Stalled

Source: PIIE

Fronts in US Pressure on China

We put tariffs last for a reason. It is the least important in the long run.

Investment restrictions

Foreign Investment Risk Review Modernization Act of 2018 (FIRRMA) reforms the Committee on Foreign Investment in the United States (CFIUS) process

Makes it harder for China to obtain US technology through acquisitions.

Export Controls

Export Control Reform Act of 2018 (ECRA) will beef up controls on US exports of "emerging and foundational technologies."

Makes it harder for firms in Chinese supply chains to source high-value added US technology .

Tariffs on Trade

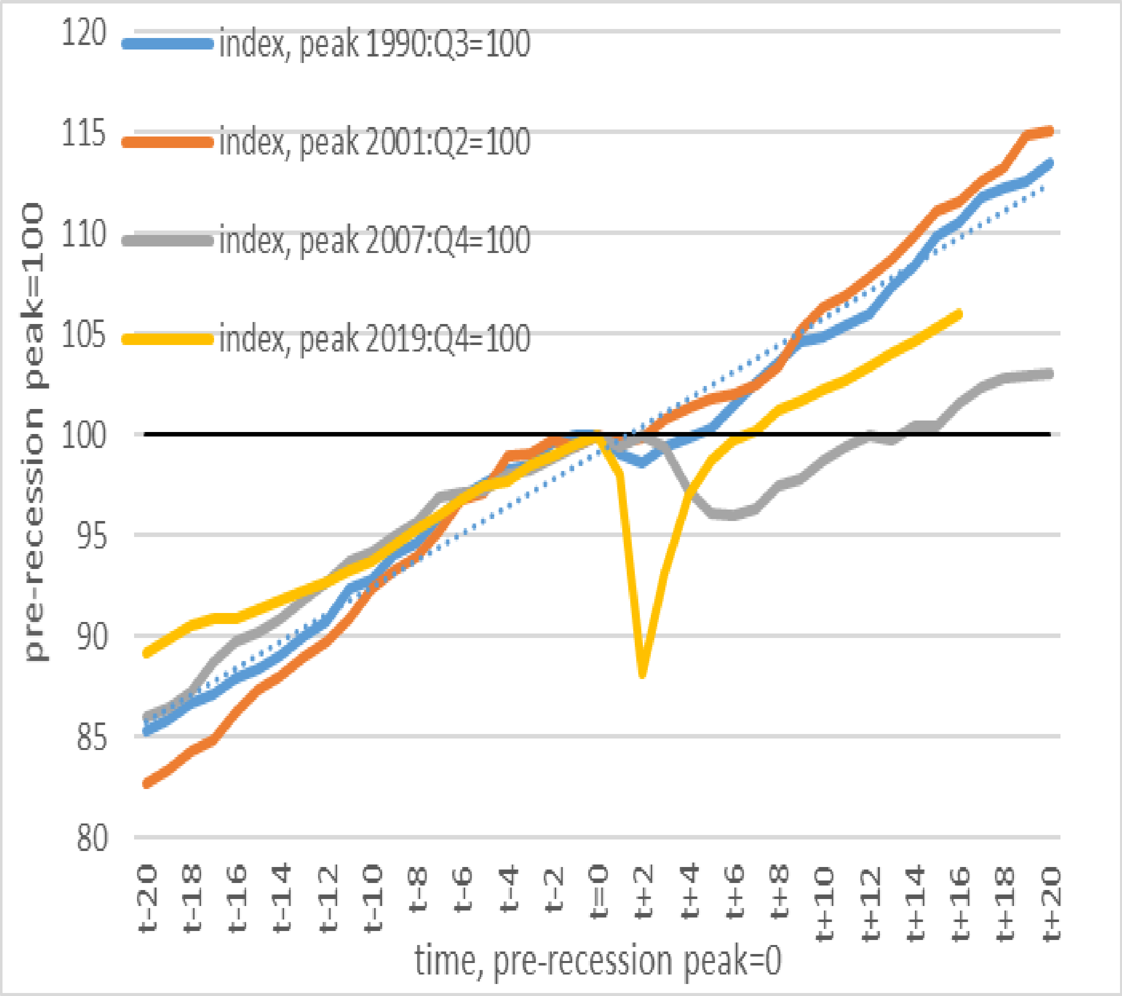
Tariffs imposed under Section 301 of the 1974 Trade Act. Aim to address "unfair practices" related to technology transfer, intellectual property, and innovation

If persistent, encourages firms in supply chains to shift production elsewhere.

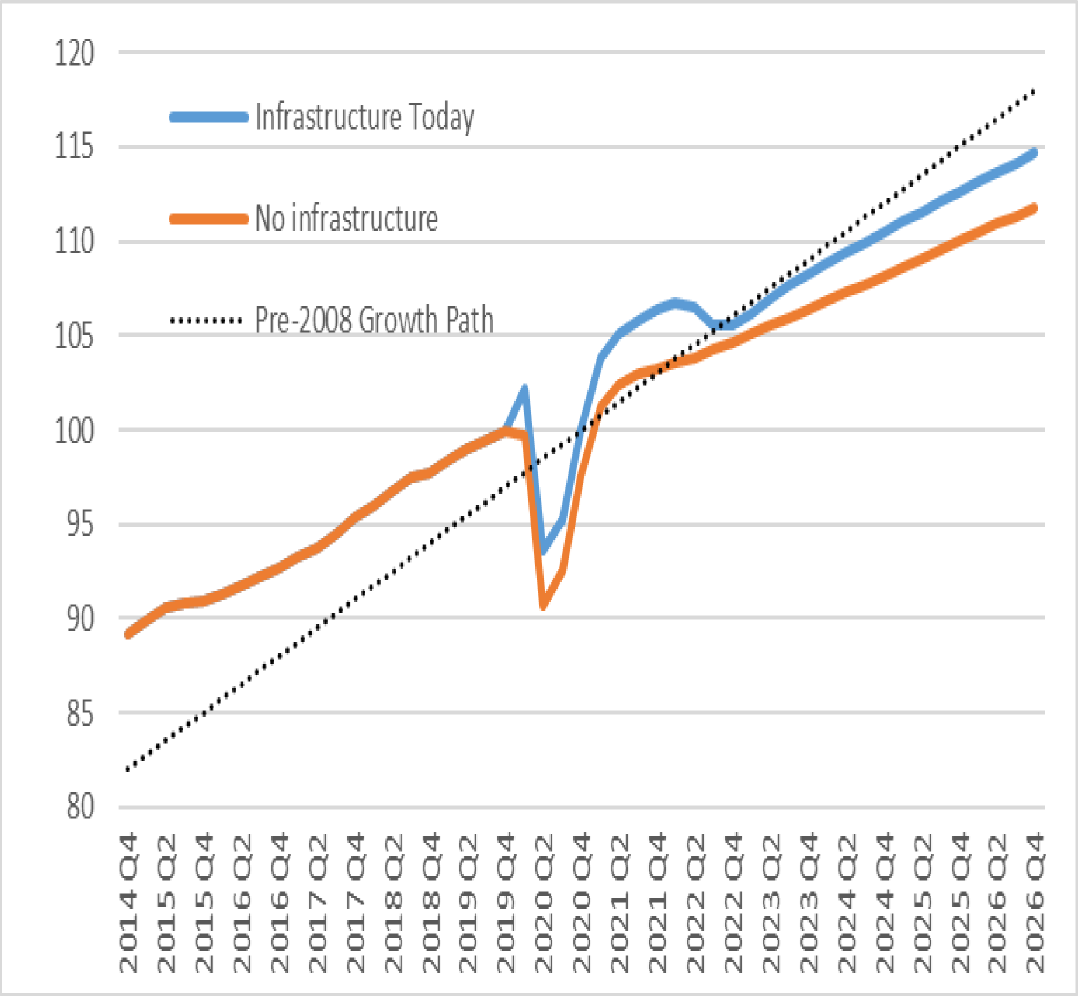
Source: S&P Global Economics

What about the shape of the U.S. recovery?

Path of GDP Before & After U.S. Recessions



Ways To Change The Shape This Time



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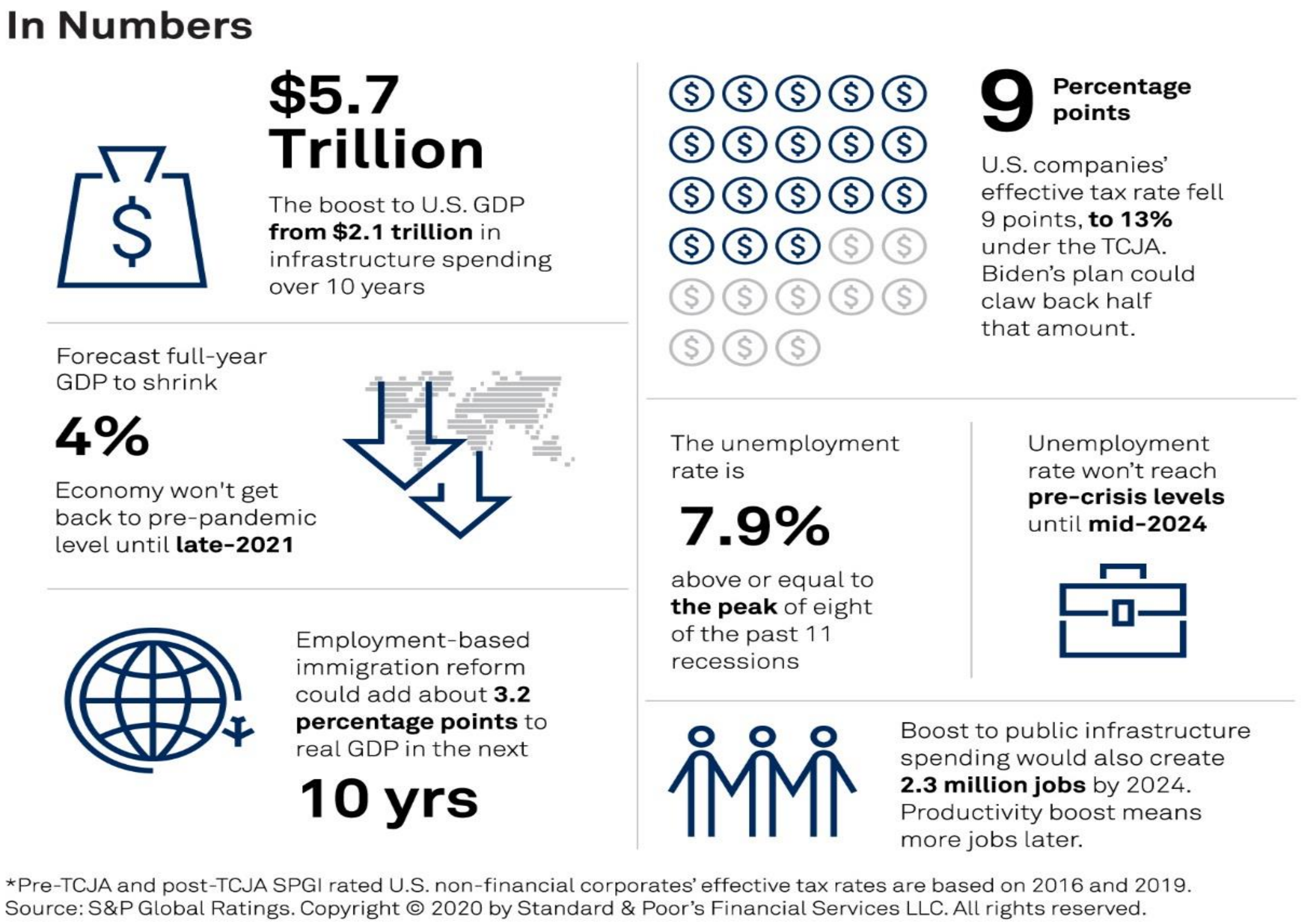
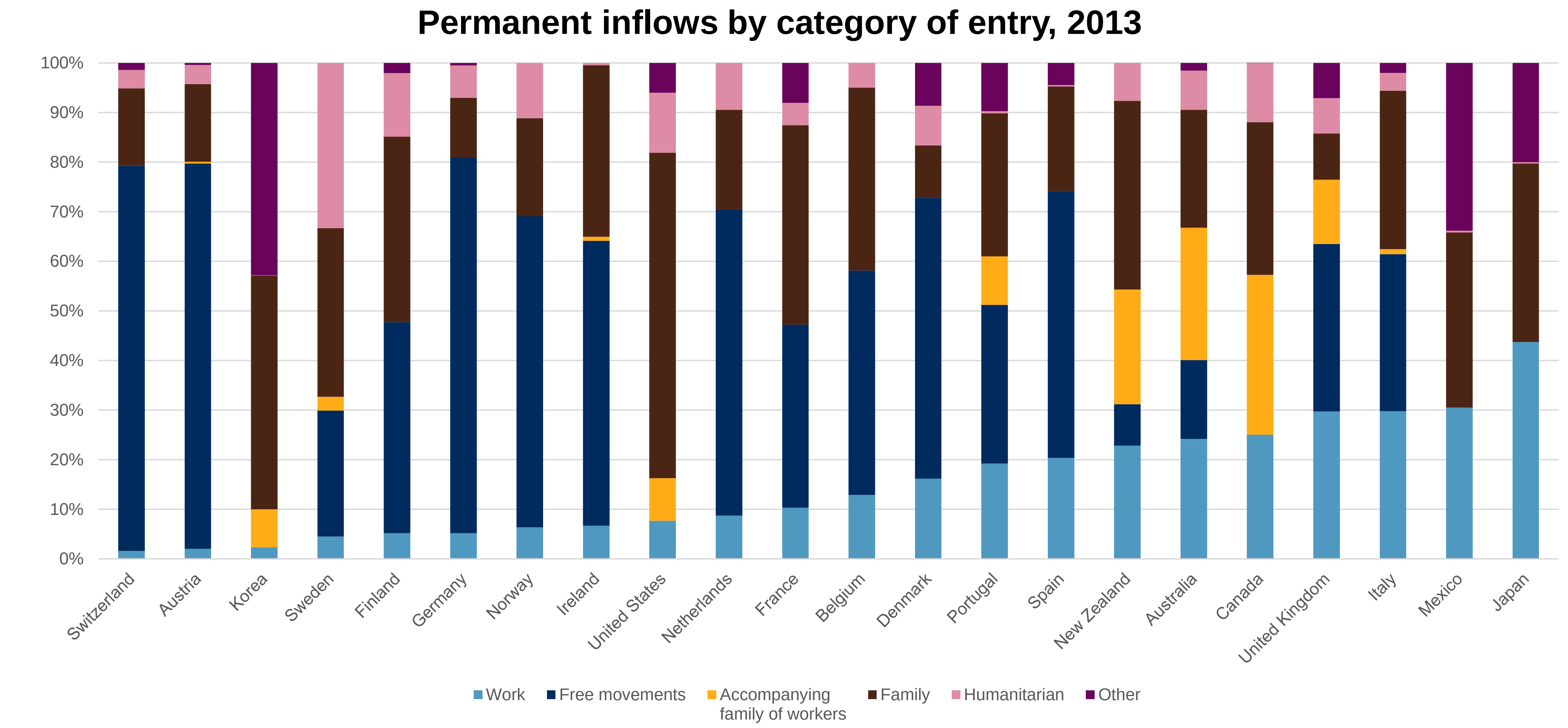
Election Policy Proposals Impact On The Economy



Family Accounts for 66% of U.S. Visas; Employment Just 9%



Source: "Trends in Migration", OECD Factbook 2016