Hilltop Securities
A Hilltop Holdings Company

ECONOMIC COMMENTARY
JULY 10, 2020

Short Yields Slip to Record Lows as Uncertainty Reins

Scott McIntyre, CFA
HilltopSecurities Asset Management
Senior Portfolio Manager
Managing Director
512.481.2009
scott.mcintyre@hilltopsecurities.com

Greg Warner, CTP
HilltopSecurities Asset Management
Senior Portfolio Manager
Director
512.481.2012
greg.warner@hilltopsecurities.com

Equities opened down but have since moved into positive territory, while bond yields on the short end of the curve are at new record lows. Virus concerns continue to dominate headlines as a record 63,206 new cases were reported in the U.S. yesterday, while fatalities reached new highs in Florida, Texas and California.

It's been a light data week, nothing major, but economic releases aren't driving the financial markets these days anyway. This morning, the headline producer price index (PPI) for June fell -0.2%, while core PPI dropped by -0.3%. Food prices were a main contributor the overall PPI with a -5.2% decline. On a year-over-year basis, PPI was down -0.8% in June, while core PPI (ex food and energy) was up just +0.1%. Consumer prices for June are scheduled for release on Tuesday, and are also expected to fall. Extremely low inflation will keep the Fed on hold and keep downward pressure on long yields.

Extremely low inflation will keep the Fed on hold and keep downward pressure on long yields.

On Monday, the ISM non-manufacturing index rose from 45.4 to 57.1 in June, crushing the 50.2 median forecast with the strongest reading since February. The new orders component jumped from 41.9 to 61.6, while business activity soared from 41.0 to 66.0. In this series, any number above 50 indicates expansion, so it's fair to say the service sector outlook was much improved in June. The thing to keep in mind is many businesses were still closed in May and opened up in June, so the contrast in the month-to-month outlook is exaggerated. Still, with the vast majority of purchasing managers experiencing a significant jump in production and new orders, the economy appeared to be moving forward in June. The employment index rose from 31.8 to 43.1, but remained in contraction mode, indicating service managers still expect to lay off additional workers in the coming months. The Markit services PMI, an alternative gauge of purchasing managers' outlooks, indicated less overall enthusiasm but a solid rebound nevertheless, climbing from 37.5 to 47.9 in June.

On Tuesday, the job openings and labor turnover (JOLT) survey showed total job openings rising from 5.0 million to 5.4 million in May, exceeding expectations of 4.5 million. The high point of the report was the number of hires (which includes rehires) surging by a record 2.44 million to an all-time high of 6.5 million…although this is yet another exaggerated number resulting from a bounce off the extreme lows. There were officially 3.9 unemployed workers for every job posting in May; however, the percentage is actually closer to 6 to 1 when those receiving benefits under the CARES Act Pandemic Unemployment Assistance Program (PUA) are included.

The thing to keep in mind is many businesses were still closed in May and opened up in June, so the contrast in the month-to-month outlook is exaggerated.

On Thursday, the weekly initial jobless claims report showed another 1.3 million Americans filed first-time claims for unemployment benefits for the week ending July 4th. It was the fourteenth straight weekly decline, and about 50k short of the median forecast, although the holiday shortened week may have postponed some filings. On the surface, this is good news, but even last week's new claims total is double the worst single week during the "great recession."

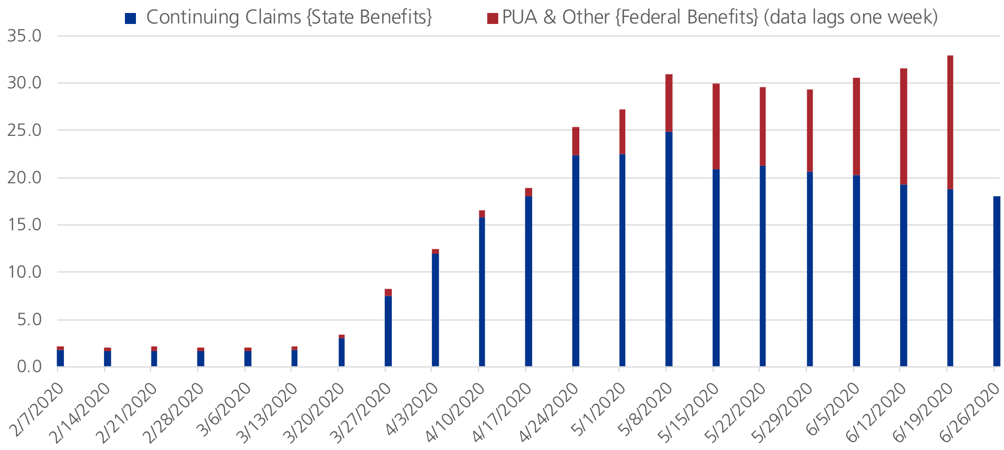
Continuing claims fell for the week ending June 27th from 18.8 million to 18.1 million. It's important to note that this oft cited continuing claims figure is for state benefits and excludes benefits received under the federal PUA. The total number receiving benefits (including PUA) for the week ending June 20th was 32.9 million, an increase of 1.4 million from the prior week. This larger number is reported by the Department of Labor,

Please see disclosure on page 2.

but hasn't been regularly reported by most economists. The reason for this seems to be that the PUA numbers aren't seasonally adjusted, and cannot be added to claims without a footnote. As a result, the number of unemployed workers has been under-reported.

On the surface, this is good news, but even last week's new claims total is double the worst single week during the "great recession."

Unemployment Insurance Weekly Claims (millions)



Source: U.S. Department of Labor and HilltopSecurities.

The nation is fighting hard to return to normal, but the recent virus surge has ramped up uncertainty.

Market Indications as of 10:30 A.M. Central Time

DOW	Up 165 to 25,875 (HIGH: 29,551)
NASDAQ	Up 10 to 10,535 (HIGH: 10,548)
S&P 500	Up 8 to 3,160 (HIGH: 3,386)
1-Yr T-bill	current yield 0.13%; opening yield 0.14%
2-Yr T-note	current yield 0.14%; opening yield 0.15%
5-Yr T-note	current yield 0.28%; opening yield 0.28%
10-Yr T-note	current yield 0.61%; opening yield 0.61%
30-Yr T-bond	current yield 1.30%; opening yield 1.31%