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The Worst Ever was Better than Expected

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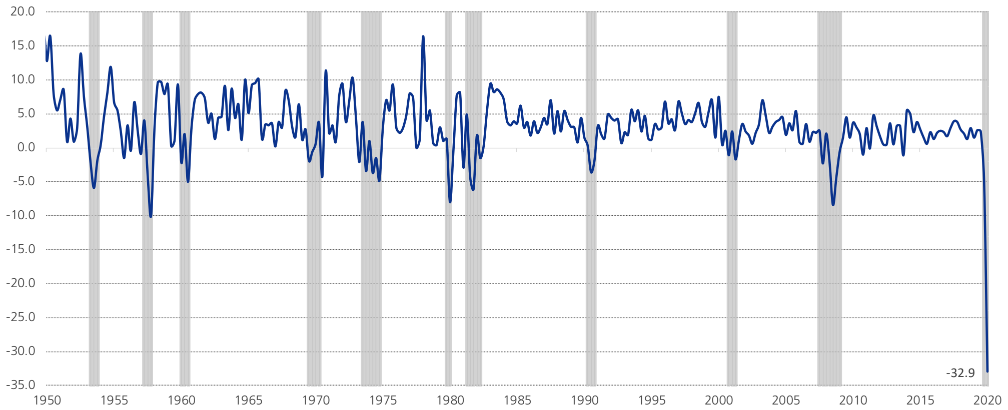
Quarterly GDP is both the most important and least timely of the economic indicators. The second quarter collapse was a given; the only question was…*how bad would it be?* As it turned out, it wasn't quite as terrible as the forecasts had indicated, but the massive -32.9% plunge was still more than three times the size of the next biggest contraction on record dating back to 1947.

Gross Domestic Product Quarterly Annualized Percentage Change



Source: U.S. Census Bureau and Bloomberg.

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The decline was primarily driven by a -34.6% drop in consumption as nonessential businesses were shuttered and most consumers were huddled in their homes. Spending on services, typically more resilient to downturns, felt the brunt of the lockdown as bars, restaurants, hair salons, gyms, yoga studios and dry cleaners were closed for much of the quarter. Residential investment (housing) fell nearly -40%, and business investment dropped -27%. Federal government spending was one of few positive contributors, up +2.7%, while state and local government spending fell -5.6%.

The second quarter numbers would have been stunning if they weren't fully anticipated. What was also widely-expected was a sharp increase in third quarter GDP growth. However, the unexpected reemergence of the virus has dampened expectations for a robust near-term rebound and ushered in whispers of a double dip if the cooler weather brings the dreaded second wave.

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The idea that the summer growth rebound has already hit a snag was supported by the second straight week of rising initial claims. This morning, first time filings for unemployment benefits for the week ending July 25 climbed to 1.43 million, while continuing or ongoing state claims rose from 16.1 million to just over 17 million. The U.S. Department of Labor reported a seasonally adjusted insured unemployment rate of 11.6% for the week ending July 18, a half point increase from the previous week. The DOL also reported the total number of Americans receiving benefits in both state and federal programs was 30.2 for the week ending July 11, a decrease of 1.6 million. Interpreting the employment data has been, and will continue to be, a nightmare. Filing delays have been significant in many states, while the closing, reopening and subsequent closing of many businesses in the sunbelt have made even the weekly data stale. What is clear is that tens of millions of Americans are jobless, and relying on the federal government for support. Tomorrow, the $600 per week supplemental Federal

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unemployment benefit is set to expire. At this point, it's very likely ongoing support will be considerably less. Fewer dollars in the pockets of those without jobs will obviously have a negative impact on future spending.

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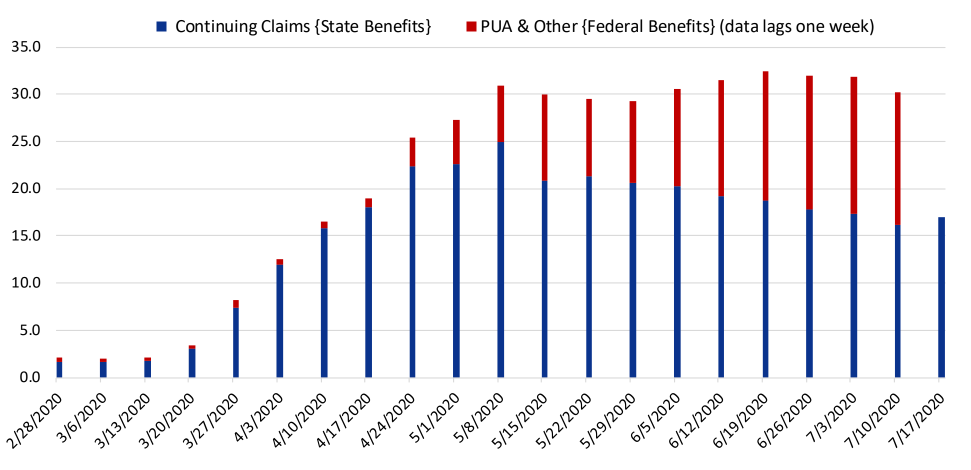
Unemployment Insurance Weekly Claims (in millions)



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

Next Friday, the monthly employment report for July is scheduled for release. A record 4.8 million net jobs were (re)added in June, but the pace of job growth for July is now forecasted to be less than half of the June advance. Stocks are down in early trading, probably more in response to a diming outlook than the worst quarterly GDP reading in history. Treasury yields continue to fall with the 2-year, 3-year, 5-year, 7-year and 10-year notes all trading at historical lows.

Market Indications as of 11:25 A.M. Central Time

DOW	Down 225 to 26,315 (HIGH: 29,551)
NASDAQ	Up 18 to 10,561 (HIGH: 10,767)
S&P 500	Down 15 to 3,244 (HIGH: 3,386)
1-Yr T-bill	current yield 0.11%; opening yield 0.12%
2-Yr T-note	current yield 0.12%; opening yield 0.13%
5-Yr T-note	current yield 0.23%; opening yield 0.25%
10-Yr T-note	current yield 0.55%; opening yield 0.57%
30-Yr T-bond	current yield 1.20%; opening yield 1.24%

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