This weekly update provides a snapshot of changes in the economy and markets and their implications for investors.

**Growth**
1Q20 real GDP fell 5.0% q/q at a seasonally adjusted annual rate, marking the start of a sharp recession. Last week, housing data continued to rebound strongly, with existing home sales rising 20.7% and new home sales rising 13.8%, following a 44.3% rise in pending home sales in May. Preliminary U.S. manufacturing and services PMIs reached 6-month highs at 51.3 and 49.6, respectively. This week, 2Q20 real GDP will be released, and we anticipate a sharp -36% q/q annualized decline, reflecting bottoming economic activity in April and May.

**Jobs**
Nonfarm payrolls increased by 4.8 million in June, pushing the unemployment rate down to 11.1%, with gains driven by leisure and hospitality, retail, and education and health care. The labor force participation rate rose to 61.5%. Wages fell -1.2% m/m for all workers and -0.9% m/m for production and non-supervisory workers, up 5.0% y/y and 5.4% y/y, respectively, due to job gains among lower wage earners. Although many returned to work with the reopening of the economy, the sharp resurgence in COVID-19 cases and pauses in reopenings could slow the pace of recovery going forward.

**Profits**
The 2Q20 earnings season kicked off in earnest this week, with 122 companies having reported (28.5% of market cap). Our current estimate for 2Q20 earnings is $22.29, with EPS growth declining -44.5% y/y. Thus far, 80% of companies have beaten on EPS estimates, and 66% have beaten on revenue estimates. Shutdowns are expected to weigh heavily on corporate results, as are oil prices and dollar strengthening, which were down 53.3% y/y and up 5.9% y/y, respectively. Only share buybacks are expected to contribute positively this quarter. From a sector perspective, consumer discretionary and energy are expected to see negative earnings, while technology, health care and utilities are expected to hold up well on a relative basis.

**Inflation**
Headline and core CPI both had their first monthly increases since February, containing disinflationary pressures. Headline CPI rose 0.6% m/m and core CPI rose 0.2% m/m in May, rising 0.7% and 1.2% y/y, respectively. The gasoline index accounted for over half of the monthly increase. May headline and core PCE rose 0.1% m/m, rising 0.5% and 1.0% y/y, respectively. The decline in energy prices and growth puts downward pressure on inflation in the short term, although disinflation during this recession may be less prolonged and pronounced than prior downturns.

**Rates**
The FOMC maintained the federal funds target rate at a range of 0.00%-0.25%. The median federal funds rate projection—as measured by the “dot plot”—implies no rate adjustments over the forecast period, and all 17 FOMC participants anticipate no further changes in 2020 or 2021. In its economic projections, real GDP is expected to fall 6.5% y/y in 4Q, with the unemployment rate at 9.3% at year-end. The FOMC did not provide much additional clarity on other tools, but will continue with asset purchases to support market functionality and financial conditions, and offer capacity in its facilities, which have only been tapped modestly thus far.

**Risks**
- The U.S. recession and recovery could be at a slower pace than markets are anticipating.
- Political headlines could foment market volatility.
- Inflation could spike in the medium term.

**Investment Themes**
- Quality with a dash of cyclical should be a focus for U.S. equity investors.
- Fixed income investors should move up in quality, and look to core bonds for portfolio ballast.
- Long-term growth prospects and cheap absolute and relative valuations support international equities.
Data are as of July 27, 2020

Past performance does not guarantee future results.

Diversification does not guarantee investment returns and does not eliminate the risk of loss.

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