

*Finance in Montana*

*William Igoe*

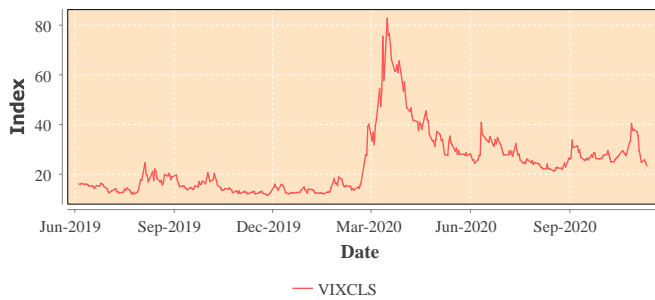
*Nov 12 2020*



This is the first of what I hope to be a series of weekly economic statistics. To summarize, our nation's economy is healing. The economy needs to quickly recover as a healthy economy is the only way to increase our nation's productive capacity. That capacity is crucial for financing the National debts and obligations of the United States. Our nation can ill afford the continued crutch of using of monetary policy as the sole lever of economic policy. The reserve currency status of the U.S. Dollar is at stake.

<p><b>Unemployment Rate</b></p> <table border="1"><thead><tr><th>Period</th><th>Unemployment Rate</th></tr></thead><tbody><tr><td>S...</td><td>4</td></tr><tr><td>...</td><td>4</td></tr><tr><td>S...</td><td>4</td></tr><tr><td>S...</td><td>5</td></tr><tr><td>...</td><td>15</td></tr><tr><td>F...</td><td>14</td></tr><tr><td>M...</td><td>12</td></tr><tr><td>...</td><td>11</td></tr><tr><td>S...</td><td>9</td></tr><tr><td>T...</td><td>8</td></tr><tr><td>T...</td><td>7</td></tr></tbody></table> <p>Value</p> <p>Period</p> <p>■ Unemployment Rate</p>	Period	Unemployment Rate	S...	4	...	4	S...	4	S...	5	...	15	F...	14	M...	12	...	11	S...	9	T...	8	T...	7	<p><b><i>Unemployment Rate falls</i></b></p> <p>The economy endured the worst of the unprecedented pandemic hit. Businesses and workers both need cash to properly function. It is impossible for the economy of any nation to sit idle.</p>
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<p><b>Weekly Economic Index (Lewis-Mertens-Stock)</b></p> <table border="1"><thead><tr><th>Date</th><th>WEI</th></tr></thead><tbody><tr><td>2014</td><td>0</td></tr><tr><td>2015</td><td>0</td></tr><tr><td>2016</td><td>0</td></tr><tr><td>2017</td><td>0</td></tr><tr><td>2018</td><td>0</td></tr><tr><td>2019</td><td>0</td></tr><tr><td>2020</td><td>-10</td></tr><tr><td>2020</td><td>0</td></tr></tbody></table> <p>Index</p> <p>Date</p> <p>— WEI</p>	Date	WEI	2014	0	2015	0	2016	0	2017	0	2018	0	2019	0	2020	-10	2020	0	<p><b><i>Weekly Economic Index</i></b></p> <p>The Weekly Economic Index (Lewis-Mertens-Stock) also shows continued economic improvement.</p>						
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<p><b>S&amp;P 500</b></p> <table border="1"><thead><tr><th>Date</th><th>SP500</th></tr></thead><tbody><tr><td>Jun-2019</td><td>2800</td></tr><tr><td>Sep-2019</td><td>2900</td></tr><tr><td>Dec-2019</td><td>3000</td></tr><tr><td>Mar-2020</td><td>3400</td></tr><tr><td>Jun-2020</td><td>2800</td></tr><tr><td>Sep-2020</td><td>3600</td></tr></tbody></table> <p>Index</p> <p>Date</p> <p>— SP500</p>	Date	SP500	Jun-2019	2800	Sep-2019	2900	Dec-2019	3000	Mar-2020	3400	Jun-2020	2800	Sep-2020	3600	<p><b><i>S&amp;P 500</i></b></p> <p>The S&amp;P 500 maintains its climb to record highs -- surprising our market pundits. Index P/E ratios are high but with such low interest rates, the dividend yield is attractive.</p>										
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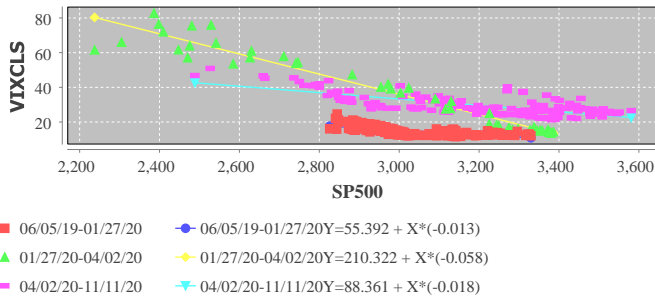
### CBOE Volatility Index: VIX



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The CBOE VIX index trends lower but the market remains volatile.

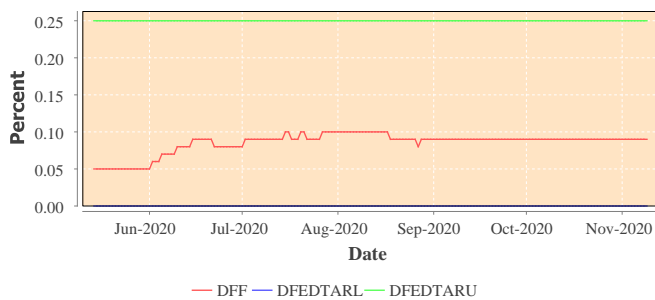
### Split Regression



### Volatility Shift

Volatility for the current period is still quite elevated when measured against the pre- pandemic period. The lower collection of red datapoints.

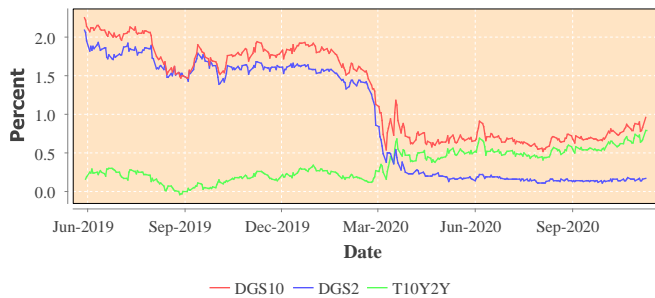
### Effective Federal Funds Rate



### Fed Funds

We see no issues in short term funding as the Federal Reserve remains accommodative. Fed Funds are well within the policy range.

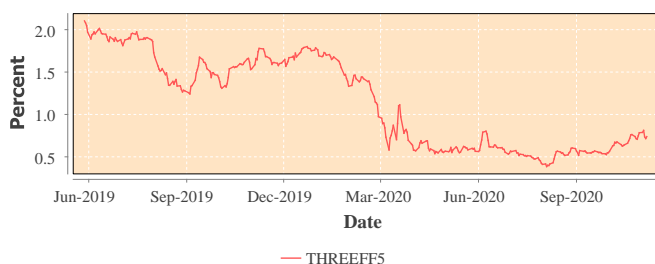
### 10-Year Treasury Constant Maturity Rate



### Treasuries

The increased spread of 10 year versus 2 year Treasuries indicates that investors do see that the Fed's accommodative stance has limits.

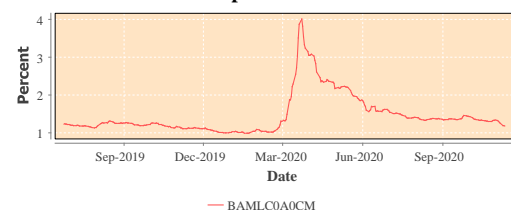
### Fitted Instantaneous Forward Rate 5 Years Hence



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Still, and for now, forward interest rates suggest rising asset prices are not threatened by the potential for rising rates. The implication is that future rate increases will be gradual.

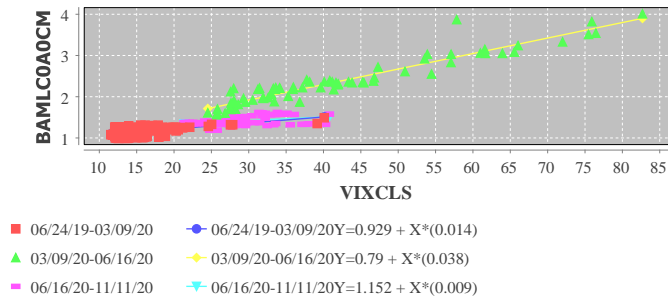
### ICE BofA US Corporate Index Option-Adjusted Spread



### Credit Spreads

Credit Spread are lower after bailouts.

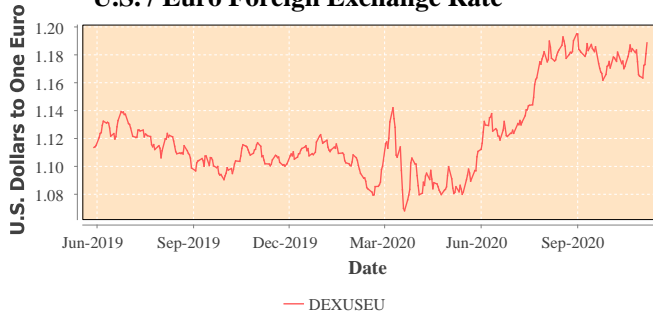
### Split Regression



### Credit Spread and VIX

Credit Spreads lower relative to the pre-pandemic period. For the time being, unlimited Fed bailouts have done their job. Caution is in order.

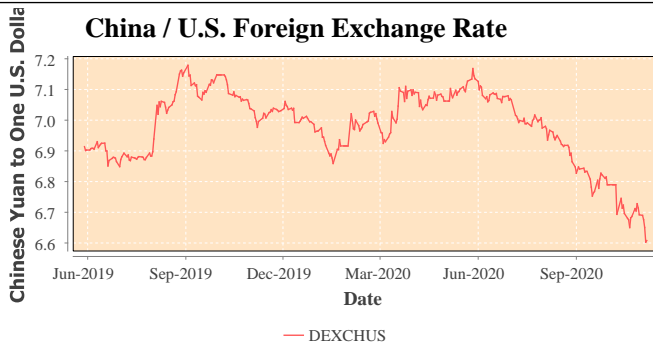
### U.S. / Euro Foreign Exchange Rate



### Declining Dollar

Euro is stronger.

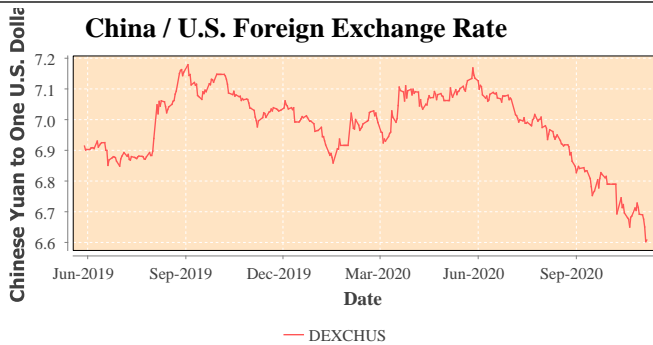
### China / U.S. Foreign Exchange Rate



### Declining Dollar

Dollar weaker against Chinese Yuan.

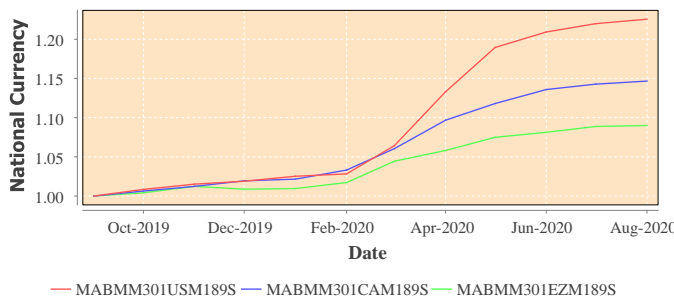
### China / U.S. Foreign Exchange Rate



### Declining Dollar

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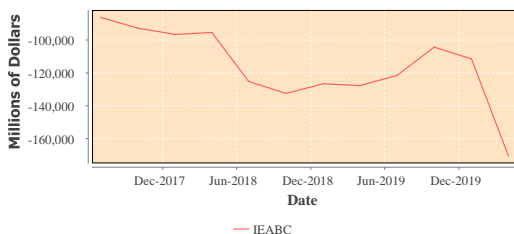
### M3 for the United States



### Monetary Debasement

Competitive Debasement adds to global liquidity. The three lines represent the relative increase for M3 in the past three months. The United States leading the charge and thus explains the decline in the Dollar.

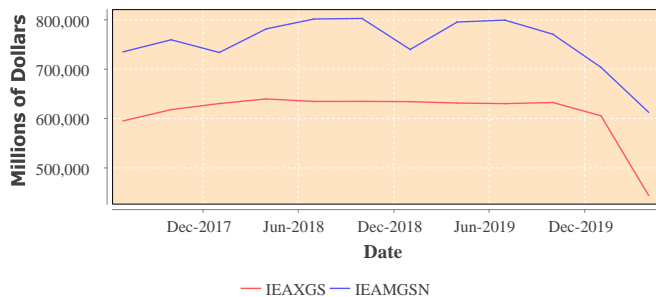
### Balance on current account



### Current Account

A weakened economy with fewer exports extends the current account deficit.

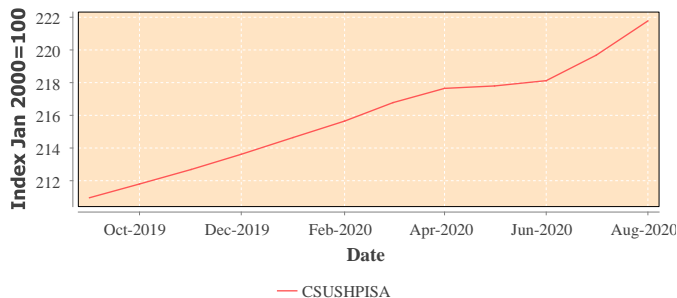
### Exports of goods and services



### Exports and Imports

The Pandemic hit both exports and imports.

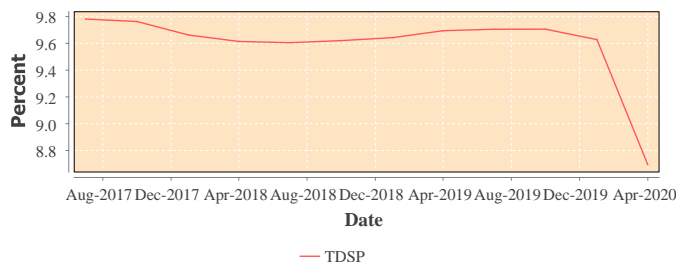
### S&P/Case-Shiller U.S. National Home Price Index



### Housing Prices

Debasement leads to rapidly rising housing prices.

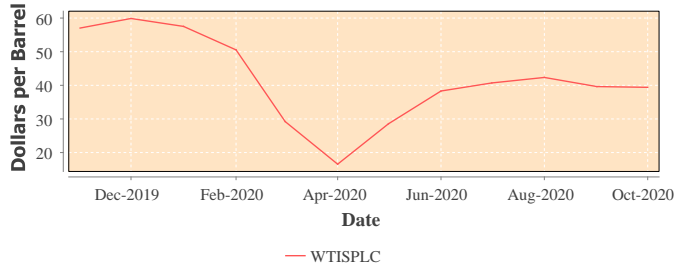
### Household Debt Service Payments as a Percent of Disposable Personal Income



### Consumer Debt Service

Historic low in interest rates allows for sustainable increases in housing prices. Again the markets must cast a wary eye for changes in interest rate policy.

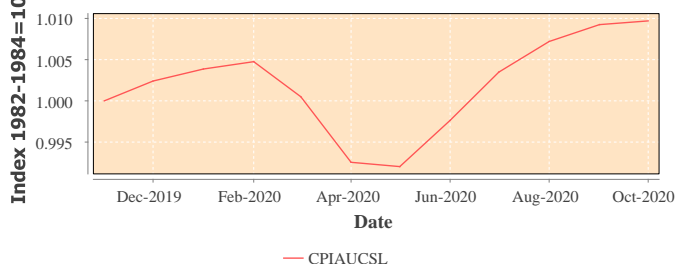
### Spot Crude Oil Price: West Texas Intermediate (WTI)



### Oil

Competitive pressure from modern oil production techniques are a cap on energy prices. That cap checks any CPI index increases.

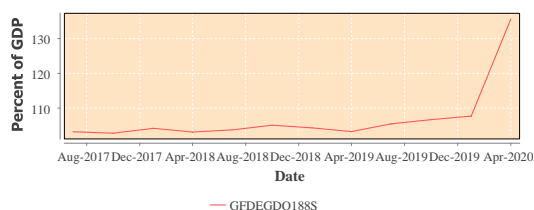
### Consumer Price Index for All Urban Consumers: All Items in U.S. City Average



### CPI Increase

Tis Oil/CPI relationship will eventually change. Questions: how quickly will the Federal Reserve respond? When rates increase, will assets maintain their lofty values? Can the Western Governments service the interest on their debt?

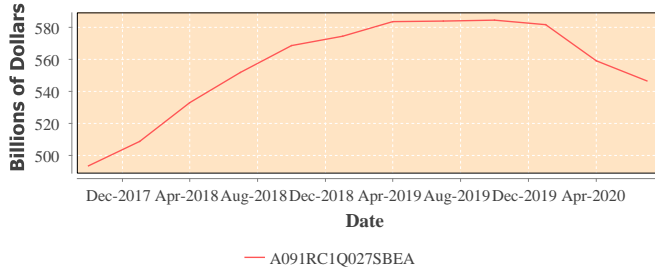
### Federal Debt: Total Public Debt as Percent of Gross Domestic Product



### US Debt

Debt to GDP is levels are at historic highs. GDP need to rapidly increase!!!

**Federal government current expenditures:  
Interest payments**



***Interest Expense Will Climb***

For now, I'll paraphrase Mel Brooks: 'It is good to be a reserve currency'.

Stay healthy and invest wisely.