

Insight Into Tomorrow: A Virtual TLC Speaker Series



Dear TLC partners, colleagues and friends,

With unemployment higher than at any time since the Great Depression juxtaposed to a seemingly resilient stock market, there is much about the current economic moment that's difficult to make sense of – and the outlook for the near to medium term seems more uncertain than usual. While we don't have a crystal ball to help us peer into the future, at last Friday's VTLC session, we brought in the next best thing: Dr. Mark Zandi, chief economist at Moody's Analytics.

In addition to his reputation as one of the nation's most sought-after economic experts, Dr. Zandi chairs the board of the Reinvestment Fund, one of the most prominent community development financial institutions in the country. He also serves on the board of MGIC, the largest private mortgage insurance company in the U.S. In case you missed his presentation last week, we thought we'd share the highlights of Dr. Zandi's analysis of the state of the economy and the road ahead.

- **The recession is over:** The average U.S. recession, going back to 1854, lasts nine months. The recession resulting from the coronavirus pandemic lasted a mere three months, from March through May – the shortest in U.S. history. Unfortunately, by the time all is said and done, it likely will go down as the most severe recession in history as well, with a peak-to-trough contraction of roughly 12 to 14%. Compare that to the 2008 financial crisis, when the economy contracted about 4%. Thanks to quick action by Congress and the Federal Reserve to provide economic

stimulus and stabilize financial markets, businesses are reopening, jobs are coming back and consumer spending is on the rebound. Another stimulus bill would help power the recovery heading into the fall, with about half of the 21 million jobs lost during the spring coming back by Labor Day.

- **Some big assumptions:** A strong summertime recovery and the overall picture in the fall is based on two big assumptions. The first is that there will be no major second wave of the virus that results in further lockdowns and business closures. The second assumption is that Congress and the Trump administration will provide another round of fiscal support to unemployed Americans and businesses suffering from the downturn. Dr. Zandi anticipates that another \$1 trillion stimulus bill will be enacted before Congress's summer recess, but additional government support – and the future course of the pandemic – are far from assured.
- **A weak recovery:** Expect a long, bumpy road between Labor Day and the end of the pandemic. Until a vaccine or therapy is developed and widely deployed, the recovery will be a slog for three reasons. The first is the ongoing uncertainty surrounding the pandemic. How long will it take to get a vaccine? Will there be a second wave? There are no easy answers, and, until the pandemic is over, uncertainty will be a drag on growth. The second reason is the credit problems that will emerge in the coming months. The federal government and creditors have offered an array of forbearance measures, from the ability to defer mortgage payments for those impacted by the economic crisis to a moratorium on foreclosures and evictions. At some point, those measures will come to an end. In addition, business bankruptcies and failures are already approaching levels seen at the height of the 2008 financial crisis. Dr. Zandi predicts they'll continue to mount going into next year. Finally, the entire global economy is in recession – no country has yet emerged to lead the way out of the economic crisis. Together, these factors will slow the recovery as we head into 2021 and beyond.
- **Weaker asset prices:** Dr. Zandi expects asset prices to be negatively impacted going forward. In the equities markets, investors appear to be overestimating the robustness and likely course of the recovery. The housing market will be dragged down by a shortage of properties for sale and the decline in mobility that started before – and has been exacerbated by – COVID-19. The commercial real estate market will

take the biggest hit, however, thanks to the suspension of business travel, the decline in foreign investment and as work-from-home shifts from a necessity of the pandemic to how business may increasingly operate going forward.

- **Longer-term fallout:** As Dr. Zandi put it, “The pandemic will have a long tail.” He predicts that it won’t be until mid-decade that we return to full employment in the U.S., thanks to a number of headwinds, including the worldwide increase in sovereign debt and the likely decline in the pace of globalization, which has historically been a boon to the U.S. economy and global growth.

Over the past three weeks, we’ve received fascinating (if sobering) assessments from some of the nation’s top experts on the state of politics, the pandemic and the economy. Now that we’ve dispatched with the lighter fare, it’s time to move on to more important topics ... like golf!

On Wednesday, please join us for a LIVE special event with some of the PGA’s biggest names: legendary sportscaster Chris Berman will host a panel discussion with Patrick Cantlay, Justin Thomas, Matt Wolff and Viktor Hovland. So, get your questions ready, because you’ll have an opportunity to share them with Chris Berman during the video chat. And you might want to grab your fancy headphones, too, because we’ll also have a surprise musical guest and a special tribute to our front-line heroes. We hope you’ll agree that we’ve put together a special virtual event.

Finally, be sure to mark your calendars for **Friday, July 10, at 2 p.m. ET**, when we’ll wrap up this year’s VTLC with **The Cook Political Report’s Amy Walter**, who will share her thoughts on and analysis of the upcoming presidential election.

We look forward to seeing you on Wednesday!

All our best,

Three handwritten signatures in black ink, arranged horizontally. The first signature is 'Alex', the second is 'Patrick', and the third is 'Michael'.

Tom Maria Greg



© 2020 The Travelers Indemnity Company.
All rights reserved.

