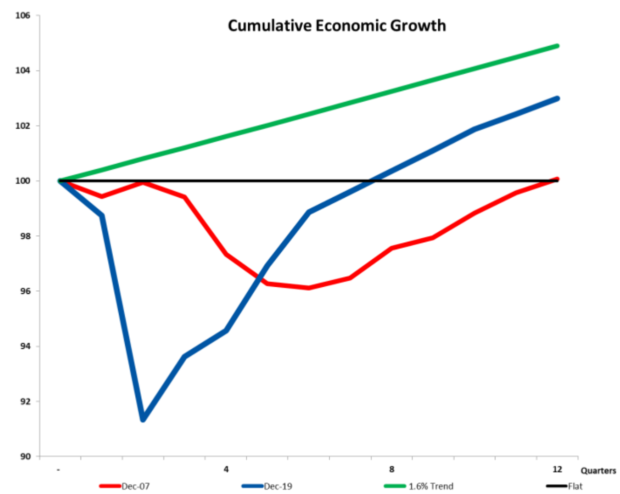
Our Outlook

	2018	2019	2020 Est	2021 Est	2022 Est
GDP Growth (1)	2.5%	2.3%	-6.6%	6.0%	2.6%
Change in Consumer Prices(2)	1.9%	2.3%	0.00%	1.6%	1.9%
Fed Funds Target Rate (3)	2.50%	1.75%	0.25%	0.25%	0.25%
5-Year Treasury Yield (3)	2.51%	1.69%	0.50%	0.76%	0.91%
10-Year Treasury Yield (3)	2.69%	1.92%	0.85%	1.35%	1.65%
S&P 500 EPS	$160	$162	$124	$160	$169

(1) 4th quarter/4th quarter (2) December / December (3) Yearend rates

Following a series of defeats from Dunkirk to Singapore at the start of WWII, the Allies finally had a victory in North Africa when Alexander and Montgomery defeated Rommel's forces at El Alamein in November 1942. Churchill said of the much-needed victory, "Now this is not the end. It is not even the beginning of the end. But it is, perhaps, the end of the beginning."

The stock market bottomed on March 23. The labor market bottomed in April. Other economic indicators also point to an April bottom. It appears the recession is over. May and June are likely to have been the end of the beginning of this economic crisis. We are very far from final victory. We do not believe the economy will fully recover until the end of next year. We do not forecast the economy recovering back to its previous trajectory in our forecast period.



Security National Bank's Outlook at a Glance

We believe the economy shrank at a 30% pace during the 2nd quarter. It will likely grow at a 10% pace during the third quarter before easing to a 4% pace during the fourth quarter as the flu season and an anticipated second wave of COVID-19 cases like slow growth. We anticipate the first half of 2021 will see growth accelerate to a 9% pace as a vaccine becomes widely available. The massive amount of stimulus will provide residual fuel for the above trend growth for the four subsequent quarters. The economy will return to its plow horse growth in the latter half of 2022. Please see the table above for our annual growth rates and other economic projections.

The global economy will likely shrink by 1% this year. China is likely to grow by 1.1%. The Euro Area is likely to shrink by 6.3%. Japan is likely to shrink by 3.5%. All measures are 4th quarter year over year (y/y) rates.

Interest rates are likely to stay low for the near future. It is unlikely the FRB will raise the Fed Funds Rate prior to 2023. The FRB will try everything imaginable to avoid negative interest rates. Its balance sheet will balloon in absolute dollars and as a percent of the economy. It may eventually purchase equity securities. While the FRB anchors short-term rates, long-term rates will be volatile and likely swing with each economic data release. The volatility in long-term bond prices is likely to rival that of equities.

Earnings on the S&P 500 Index are likely to fall by 43% y/y in the second quarter. For all of 2020, earnings are likely to fall 25%. Next year, earnings are likely to rise by 28% as sales and margins improve. Dividends are also likely to fall as companies attempt to shepherd their cash. We are currently forecasting dividends for 2020 will fall 9%. That puts the dividend yield at 1.7%

From its all-time high on February 19 to its low on March 23, the S&P 500 lost 34% of its value. From March 23 to June 30, the index rose 39%. The S&P 500 is only 7% below its all-time high. The S&P 500 is trading at 19.6 times our 2021 forecasted earnings. This is significantly above the long-term average of 16.1 times. We believe the stock market is discounting a lot of good news. Without better earnings prospects, equity returns are likely to be muted for the remainder of the year.

In late March, we rebalanced our portfolios, generally adding to our equity allocation. We recommend taking the opportunity the market recovery provided to trim large positions and bring your portfolios back to their long-term asset allocation. While defaults are likely to increase, high yield spreads currently compensate for the added risk. We recently re-entered the high yield market after a long absence. Our allocation to high yield is still quite modest. We continue to favor domestic high quality, steady growing companies over foreign companies. In foreign markets, we favor Asia over Europe. Our asset allocation has remained remarkably steady for the last five years. Changes have only come at the margin. We remain disciplined in our investment process.

There are significant risks to our forecast. If the U.S. does not contain the pandemic and is forced to reinstate lock-down due to a second wave, many of the job losses and business closures will become permanent, a self-perpetuating cycle of economic destruction will take hold resulting in structurally high unemployment, permanent loss of human capital, and persistent malaise in consumption and investment. Fixed income and equity market already price in an optimistic economic outlook. A bump in the road back will be met with a swift and severe stock and bond sell-off. If all goes as planned, highly levered companies in stressed industries such as retail, airlines, and cruise line operators will have their day in the sun and their stock prices will soar. We will let someone else play in that space.

Please email us about what you are seeing in the economy and your businesses. We are always eager to receive additional input. Our economic outlook is a mosaic; the picture becomes clearer with more pieces.

Please see the obligatory disclosures at the bottom of each page and the end of this report.

Recent Economic Reports

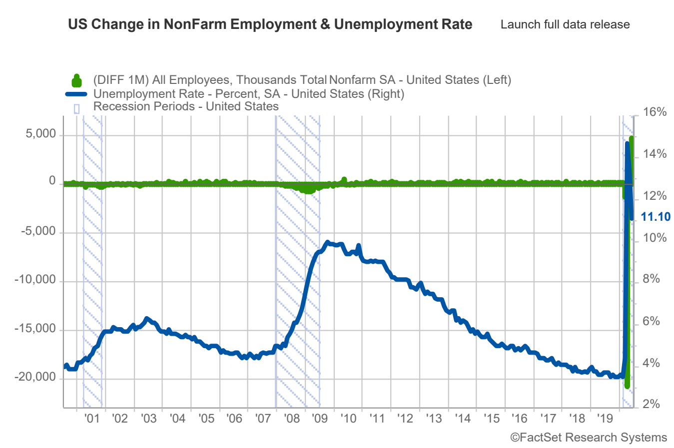
June 30, 2020	Value	One Month Change	YTD	1 Year Change
Fed Funds Target (Upper)	0.25%	--	-150 bp	-225 bp
2-Year Treasury Yield	0.15%	+1 bp	-142 bp	-158 bp
5-Year Treasury Yield	0.28%	-2 bp	-141 bp	-147 bp
10-Year Treasury Yield	0.65%	--	-113 bp	-135 bp
SNL 30Yr Fixed – U.S. Avg.	3.41%	- 8 bp	-48 bp	-66 bp
S&P 500 Index*	3,100	1.99%	-3.08%	7.51%
S&P Midcap 400*	1,783	1.26%	-12.78%	-6.70%
S&P Small Cap 600*	832	3.74%	-17.85%	-11.29%
S&P SuperComposite 1500*	703	1.99%	-4.08%	6.08%
S&P 500 Growth*	2,094	4.10%	7.93%	17.75%
S&P 500 Value*	1,070	-0.95%	-15.52%	-4.50%
Developed Ex U.S., net **	5,687	3.40%	-11.34%	-5.13%
Emerging Markets, net **	476	7.35%	-9.78%	-3.39%
Liquid Alternatives ***	165	0.89%	-3.41%	-1.49%
BB U.S. Aggregate *	110	0.63%	6.14%	8.74%
Crude Oil – WTI Near Term	$39	10.65%	-35.69%	-32.84%
Gold – Near Term	$1,793	3.23%	18.00%	27.91%

** = Total return **= MSCI EAFA and EM **** = Wilshire Liquid Alternative Index*

Below you will find our take on the standard monthly reports and our guess on the direction of our trusted economic indicators.

Employment

Jobs growth surged last month as more people than expected returned to work. Data released on July 2 again surprised to the upside. The economy added 4.8 million jobs and the prior two months were revised up 90,000. Private employers added 4.8 million positions. The unemployment rate fell to 11.1%.



Hiring rose across most major industries with the largest gains coming in those sectors hardest hit by the shutdown. Below is a chart with some select industries' June results and the cumulative impact over the last four months.

Employment by Industry

	June 2020 Jobs Added / (Lost)	March – June Cumulative Change	Percent Recovered
Total Nonfarm	4,800	-14,661	34%
Private Sector	4,757	-13,192	38%
Construction	158	-472	56%
Manufacturing	356	-757	44%
Retail	740	-1,273	47%
Restaurants and Bars	1,483	-3,971	48%
Hotel	239	-786	14%
Entertainment	366	-909	32%
Healthcare (ex nursing homes)	378	-710	51%
Education (private & public)	145	-1,313	10%
Nursing Homes	-20	-194	N.A.
State and Local gov't (x ed)	-19	-562	N.A.

In thousands

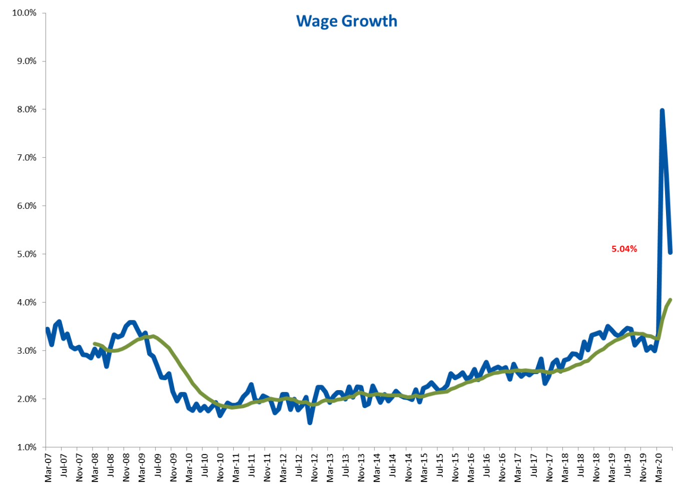
Over the last two months, the private sector has added 8 million jobs and has recovered 38% of the jobs lost due to the pandemic shutdown. The above table details the jobs recovery in select sectors. The gains in restaurants and bars may be short-lived as several large states re-impose restrictions to stem the resurgence in new COVID-19 cases.

Nursing homes had avoided large lay-offs in March and April. They are now facing employment difficulties. While 11% of COVID-19 cases have occurred in long-term care facilities, an estimated 43% of COVID-19 deaths are linked to nursing homes, according to the New York Times. In Nebraska, 34% of COVID-19 deaths are linked to nursing homes. The nursing home/ assisted living industry employed 3.4 million people in February 2020.

State and local governments were finally recovering from the fiscal shock of the Great Recession. This pandemic has state and local governments' budgets in disarray. Most states start their fiscal year on July 1 and have balanced budget requirements. Without additional Federal support, they will need to make drastic budget cuts. State and local governments employed 9.3 million people (excluding schools) in February 2020.

The Labor Department in its Employment Situation (Jobs) Report estimates the U.S. economy added between 4.8 million (establishment survey) and 4.9 million (household survey) jobs in June. The unemployment rate fell to 11.1% from 13.3% last month. Last month, 1.7 million people reentered the labor force. The participation rate rose from 60.8% to 61.5%. The participation rate was 62.7% in February. The broader U-6 unemployment rate also fell from 21.8% to 18.0%. Despite the snap-back, the economy is still down between 16.6 million (household survey) and 14.7 million (establishment survey) jobs since February.

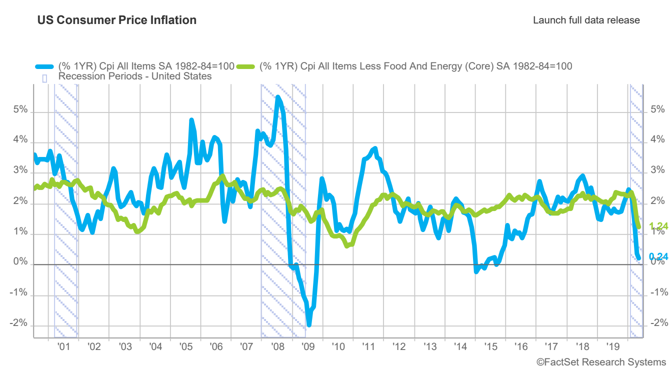
Last month, average hourly earnings (wages) fell 1.2% m/m but are up 6.75% y/y. Job losses and gains have been concentrated in lower-paying sectors, especially hotels, restaurants, and bars. As those industries lost employees, it brought the average up. As they recover, the lower wages bring the average down. The average workweek fell 0.2 hours to 34.5 hours. Again, employees in hotels, restaurants, and bars tend to have shorter workweeks. Average weekly earnings are up 5.35% from last year to $1,033 ($52,690 annualized).



The economy probably bottomed in April and businesses have started to rehire in response to the economy reopening. While the last two months' of job growth have been impressive, the economy has only recovered about a third of the jobs lost during the shutdown. The economy is now at the end of the beginning of its recovery. It still has a long way to go until it fully recovers.

Inflation

Consumer prices fell by 0.1% in May. Energy prices fell a further 1.8%. Besides energy, the price of apparel fell 2.3%; the price of a hotel room fell 1.8%; the price to rent a car fell 3.5%; the cost to insure a vehicle fell 8.9%; airfares fell 4.9%. Core consumer prices fell by 0.1%. Apartment rent and owner's equivalent rent continue to steadily increase. Both were up 0.3% in May and are up 3.5% and 3.1% y/y respectively.

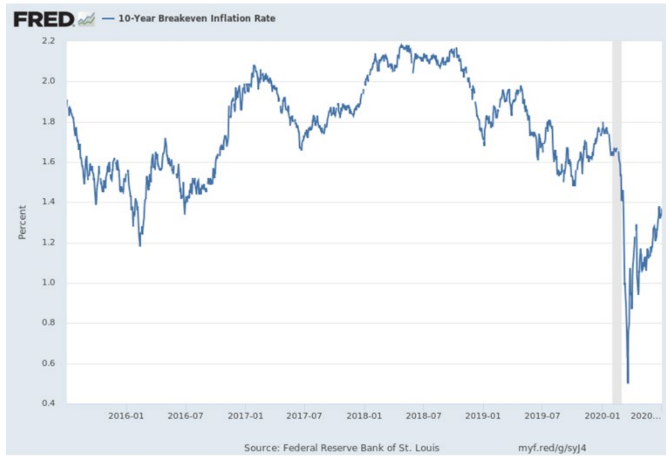


The shutdown and reopening of the economy will continue to bring volatility to the price index for the remainder of the year. Consumer prices are up a scant 0.2% y/y; core prices are up 1.2%. It is unlikely the economy will experience significant bouts of deflation unless the housing market falters.

The PCE index was up 0.1% m/m and was up 0.5% y/y. The core PCE was up 0.1% m/m and up 1.0% y/y.

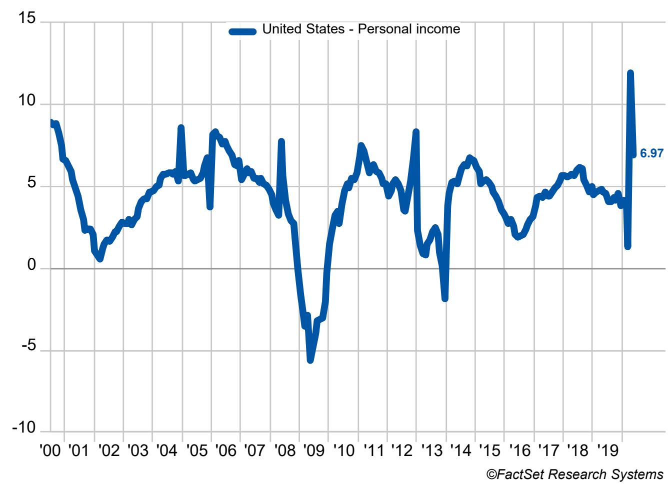
Consumers and investors base their financial decisions on what they expect inflation to be in the future. In response to a slowing global economy and plunging energy prices, inflation expectations rapidly declined. Inflation expectations have since recovered and have stabilized along with the economy. Currently, market participants expect inflation to average 1.37% over the next ten years.

While supply chain disruptions and hoarding may cause certain food items prices to temporarily spike, the slowing global economy will continue to keep a lid on inflation and inflation expectations. The FRB will not have to worry about inflation exceeding its 2.0% goal for a very long time. This will allow the FRB to keep the Fed Funds rate at 0.25% for a very long time.

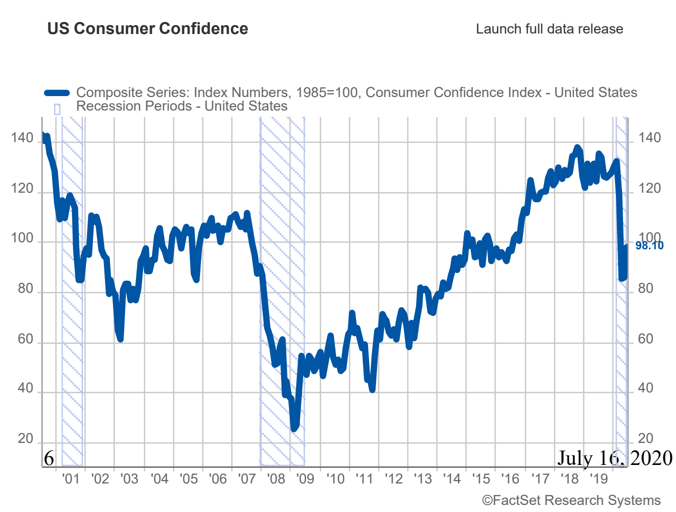


The Consumer Sector

Personal income fell 4.2% in May after surging 10.5% in April and is up 6.97% from a year ago. Income in April was inflated due to the $1,200 CARES Act tax credit hitting checking accounts. Private sector wages grew 3.7% after falling 8.55% the previous month. Private sector wages are down 6.3% y/y. Unemployment benefits surged 183% during the month and are up 4,836% y/y. In total, government benefits (including social security) are up 68.6% y/y.



A working paper released by the Becker Friedman Institute for Economics at the University of Chicago states that with the additional $600 a week, two-thirds of eligible workers receive benefits that surpass their prior earnings. Meanwhile, one-fifth of unemployed Americans can collect benefits that are at least double their lost income, according to the paper's authors Peter Ganong, Pascal Noel, and Joseph S. Vavra. Unless extended by Congress, the extra $600-a-week payments are set to expire at the end of July. In the meantime, the extra income is being used to pay the rent or is being socked away to pay August's rent. During the month, consumers saved 23.2% of disposable income after having saved 32% of April's income. Disposable personal income is up 8.8% y/y. Disposable personal income per capita is up 8.3% y/y. Real disposable income per capita is up 7.7% y/y.



Consumer spending on goods and services rose 8.2% for the month but was down 9.3% y/y. Spending patterns continue to reflect the impact of the pandemic. Spending on healthcare was down 21.0% y/y as non-essential medical services were curtailed.

Prepared by Damian Howard

Other categories hit by the pandemic include restaurants (down 33%), hotels (down 77%), apparel (down 29% y/y), energy (down 45% y/y) and transportation (down 38%). Spending at grocery stores rose 13% and spending on recreation goods (computers, basketball hoops, and video games) rose 15%.

Consumer confidence as reported by the Conference Board rose in June. The headline index rose to 98.1 from a revised 85.9 the previous month. In February, the reading was 132.6. For reference, the average reading over the last twenty years has been 91.6.

The present situations component rose dramatically from 68.4 to 86.2 as consumers felt the economic bottom. The forward-looking expectation component rose to 106 from 97.6. Consumers are looking through the current economic mess to a post-COVID world.

Non-Manufacturing Sector	Direction
Business Activity / Production	Growing
New Orders	Growing
Employment	Contracting
Supplier Deliveries	Slowing
Non-Manufacturing Sector	Growing
Industries Expanding	14
Industries Contracting	3

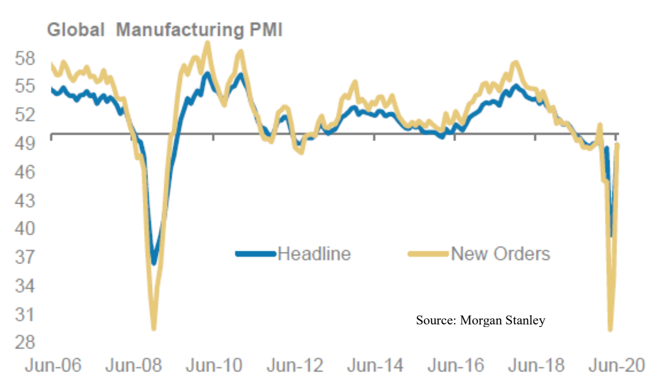
The Business Sector

The Institute for Supply Management's (ISM) non-manufacturing index rose 11.7 points to 57.1. June's increase was the largest one-month increase since its inception in 1997. For the second survey in a row, the two most forward-looking components, business activity/production, and new orders rose smartly. The index confirmed that the non-manufacturing sector has moved from contraction to recovery and that April was the bottom of the brief but harsh recession.

Manufacturing Sector	Direction
Production	Growing
New Orders	Growing
Employment	Contracting
Supplier Deliveries	Slowing
Manufacturing Sector	Growing
Industries Expanding	13
Industries Contracting	4

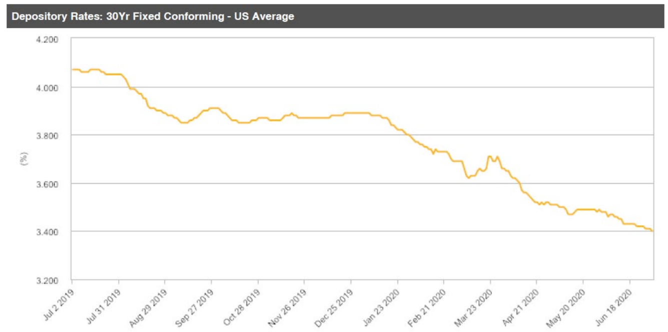
The business activities/production component rose 25 points to 66.0. The new orders component rose 19.7 points to 61.6. The employment component rose 11.3 points to 43.1. Three industries reported an increase in employment.

As a frame of reference, a reading above 50 indicates expansion; a reading below 50 indicates contraction. Readings approximating 50 indicate the same level of activity. A manufacturing PMI above 42.9 generally indicates an expansion of the overall economy.

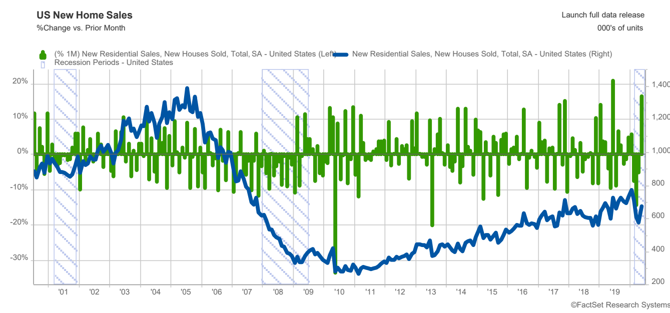


The manufacturing index rose 9.5 points to 52.6, indicating the manufacturing sector is growing again. The production component rose 24.1 points to 57.3. The new orders component rose 24.6 points to 56.4. The employment component rose 10.0 points to 42.1. During June, the manufacturing sector added 356,000 jobs. The supplier delivery index fell by 11.1 points to 56.9 indicating that the bottlenecks seen since the start of the pandemic are beginning to ease.

Comments confirm that the manufacturing sector has returned to growth "As predicted, the growth cycle has returned after three straight months of COVID-19 disruptions. Demand, consumption, and inputs are reaching parity and are positioned for a demand-driven expansion cycle as we enter the second half of the year. Among the six biggest industry sectors, Food, Beverage & Tobacco Products remains the best-performing industry sector, and Computer & Electronic Products and Chemical Products returned to respectable growth. Transportation Equipment and Fabricated Metal Products continue to contract but at much softer levels,"



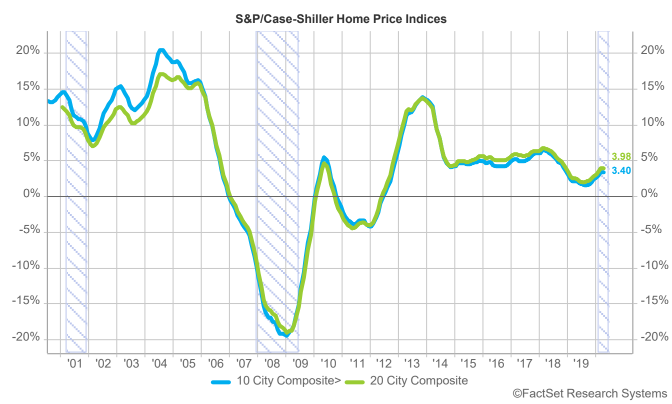
Global manufacturing PMIs have mirrored the U.S. measuring, indicating a broad-based global recovery in manufacturing. As economies have reopened, manufacturing activity has resumed. Supply chains are beginning to normalize.



The Housing Sector

The housing sector continues to be a source of strength. As often the case, the sector that led the last downturn, usually avoids the next one. The main issue in this sector is the lack of product. The economy is short of both new and existing homes for sale.

Mortgage rates are down 0.67% y/y. and are likely to remain low for a very long time. This will provide continued support for the housing sector.



Following three straight months of lower sales, May's new single-family home sales came in at a 676,000 annual rate versus expectations of only 632,000 and up 13% y/y.

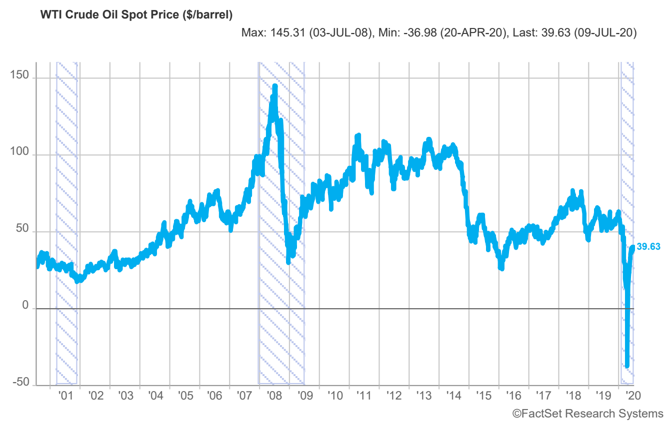
The median selling price for new homes rose a modest 1.7% y/y to $318,000 with the trailing three-month average down 1.0% y/y. Existing home price appreciation as measured by the Case-Shiller Home Price Index ticked up a bit but remains below 4%.

For years, the housing market fought the trend toward denser urban living. With social distancing and social unrest, the lure of suburban living seems to be gaining steam. It is too early to tell. If it becomes a lasting trend, new home construction will have an additional tailwind. For now, low-interest rates are likely to keep the housing market a steady contributor to economic growth.

During the first quarter, residential construction contributed 0.7% to GDP growth, the largest contribution since the second quarter of 2004. We look for housing to remain a reliable contributor to growth for the foreseeable future.

Oil

After falling below zero, crude prices have rallied but remain 25% below the general level experienced prior to the pandemic.

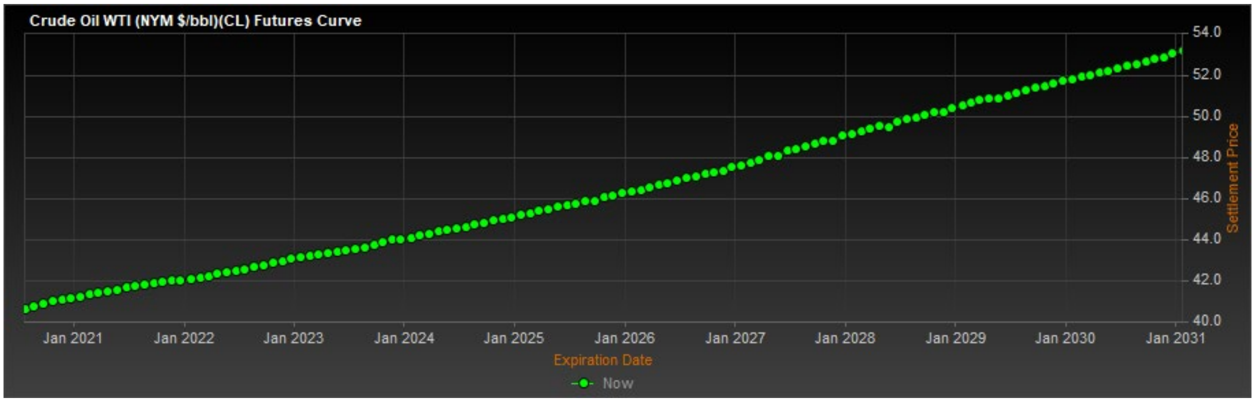


The U.S. Energy Information Administration (EIA) estimates global oil consumption averaged 83.8 million barrels per day (mb/d) in the second quarter of 2020, a decline of 16.6 mb/d from the same period in 2019 – a drop of 17%. The EIA expects global oil demand will average 92.5 mb/d in 2020, a decrease of 8.3 million b/d from last year or 8%. The EIA forecast 2021 consumption will grow by 7.2 million b/d to 99.7 mb/d. While this is an increase of 8%, next year's demand will be lower than the 2019's.

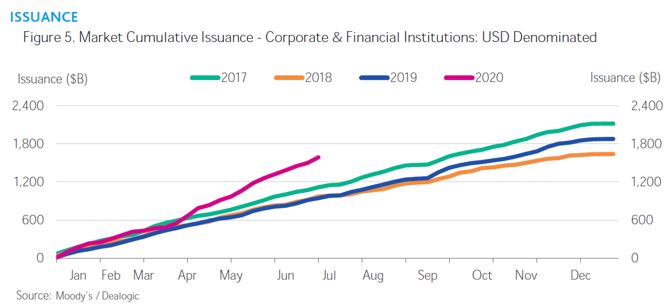
U.S. production set a record at 12.9 mb/d in November 2019. The EIA estimates production fell to 11.4 mb/d in May 2020. The EIA expects U.S. production to fall to 10.6 mb/d by March 2021. For all of 2020, the EIA expects U.S. production to average 11.6 mb/d down 0.7 mb/d from 2019. In 2021, the EIA expects production to average 10.8 mb/d.

The EIA estimates global inventories rose at an average rate of 9.4 mb/d during the first five months 2020 and stood 1.4 billion barrels higher than they were at the end of 2019. The EIA estimates global inventories declined in June as sharply lower production fell short of rising demand. With a rapidly mending global economy, inventories should decline at an average pace of 2.5 mb/d through the end of 2021.

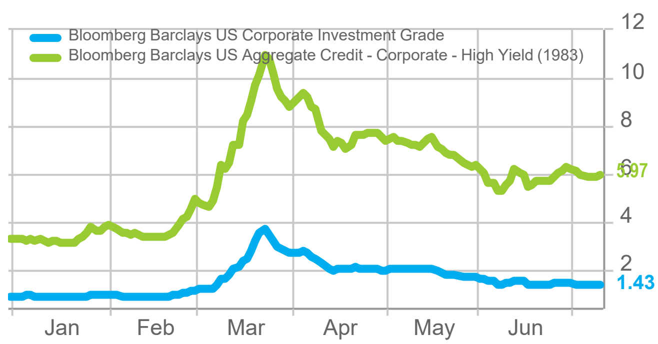
The global oil markets appear to be in balance. It will take a while to burn off the excess inventory. Prices may firm from here, if U.S. production continues to fall. U.S. shale producers can bring supply on-line in short order. The threat of additional supply should keep prices in check. The chart below shows the futures curve for WTI on July 3. Over the last month, the futures curve has shifted up by approximately $4 per barrel in the immediate future and fell by $4 per barrel on the long end.



Credit Markets



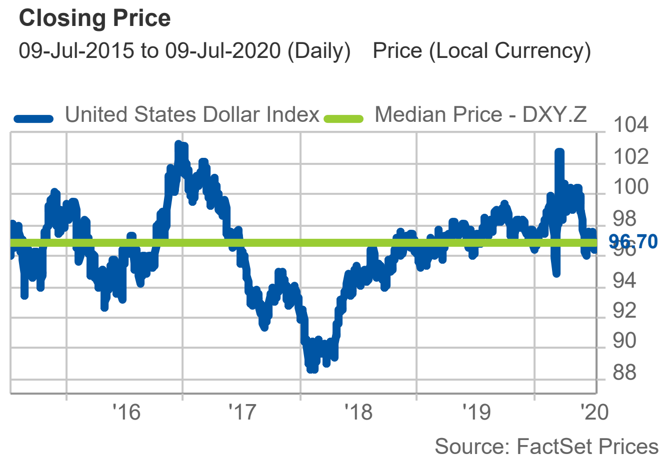
The corporate bond market seized up in March, as investors feared a pandemic induced global depression. The FRB rode to the rescue announcing its willingness to purchase unlimited amounts of debt. The FRB promised not only to purchase government bonds but also corporate investment grade and high yield bonds. Just the announcement of intended purchases was enough to stabilize the market. Since then new issuance has skyrocketed and spreads have narrowed considerably. As seen in the charts, issuance is significantly higher than in previous years and spreads have narrowed considerably from March, but are higher than prior to the pandemic.



Corporations have built cash reserves they might need to weather an extended pandemic induced slowdown. Not every company is able to take advantage of the largeness. Several large, well-known companies like Hertz and Chesapeake Energy have succumbed to COVID-19 and recently declared bankruptcy. The default rate for high yield companies has risen to 4.7%. Moody's expects the default rate to 9.5% by February.

Trade Weighted Dollar

European and Asian economies that have started reopening and have avoided a widespread pick-up in new COVID-19 cases. They appear to have managed their shutdown and recovery significantly better than the U.S. has.



In Europe, the Recovery Fund should help stabilize Italy and other shaky economies. With collapse of the Eurozone postponed and slightly better growth prospects, the Euro has rallied about 4%. For the most part, the dollar will trade on relative growth prospects. For now, it appears that non-U.S. growth prospects are a bit brighter than they were in May. The dollar has stabilized at its five-year average and will likely trade based on the success or failure of the reopening process.

We welcome your comments and suggestions. Please feel free to contact me. Also, please see the obligatory disclosures listed below.

DISCLOSURES