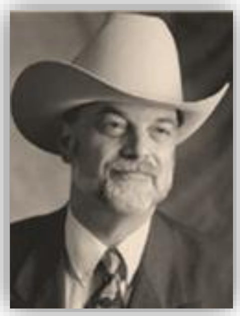

THE PERSONAL WEALTH COACH®

An SEC Registered Investment Adviser

Jeffrey W McClure CFP® *Jacob A McClure* CIMA®

PO Box 1029 / 918 N. Main Street
Salado, TX 76571

(254) 947-1111
(800) 914-7526

Serving Investors Since 1982

www.tpwc.com

jeff@tpwc.com

jake@tpwc.com

February 21, 2020

TPWC Market and Economic Update

The Markets

The value of the S&P 500 Stock Index (SPX), our preferred U.S. stock market indicator, finally started to reflect the threat to earnings from the COVID-19 virus epidemic as the SPX declined 1.25% for the week to close at 3,337.75. That relatively minor decline obscures the fact that the index broke its previous high record on Wednesday, closing at 3,387 after nearly crossing the 3,400 line earlier in the day. In short, the U.S. stock market declined nearly 2% in the last two days of the week. Traders have gone from fearful of a global pandemic, to unconcerned about it, and now back to seriously concerned. The debate continues on Wall Street as to whether this is just another flu-like disease or if this is the "big one" that is going to have a significant impact on commerce and corporate earnings. The Index remains up a very respectable 3.31% year-to-date and a whopping 19.52% from a year ago and has a three-year average annual rate of return of 13% for the trailing three years.

The big news in the Treasury bond market was that the benchmark 30-year U.S. Treasury bond yield dropped to the lowest level in history, yielding 1.889%. As a point of reference, the 30-year bond was yielding 2.14% as recently as February 5. That decline in interest rates equates to a nearly 12% drop in yield. The ten-year U.S. Treasury note, our normal benchmark on what the bond market is telling us, closed out the week yielding 1.473%, down about 7% for the week. With the 90-day T-bill yielding 1.578%, once again the Treasury yield curve is inverted, forecasting an economic downturn later this year. West Texas Intermediate crude oil (WTI) was contrarian, rising in price 2.09% to close at $53.35 but is still down almost 13% year-to-date.

The Economy

U.S. business activity fell to its lowest level since 2013 as measured by the IHS Markit composite output index in February. The index fell from 53.3 in January to 49.6 in February on a scale where numbers below 50 indicate a contraction while numbers above 50 indicate expansion. The decline in business activity reflected a small growth in manufacturing, but that is old news. The alarming data was that the largest change in the last month was in the services sector of the economy. New orders received by private sector firms fell for the first time since October 2009.

At least part of the decline in services business activity was attributed to the near total cessation of tourist arrivals from China but the contraction was more widespread than could be accounted for by that number alone. Yet another element of the contraction was from the disruption of cross-Pacific supply chains. When companies are assembling products here in the United States and the parts supply from manufacturers in China is interrupted, the companies doing the assembly halt their orders for the other parts needed for final production. Further evidence of the economic contraction that appears to be underway is evident in the transportation industry. Railroad traffic has declined about 6.1% from this time last year. Maersk, the world's largest shipping company, reported a 5.6% decrease in global shipping in January.

While the direct impact on the U.S. economy of the COVID-19 epidemic so far is muted and the facts available are limited, there are several things we do know. First, the virus is highly contagious. A single infected person attending a large church service in Korea appears to have infected several hundred people. Second, we know that virtually no one has immunity to the virus as it is a "novel" viral strain. The death rate is uncertain although several agencies have

Information contained herein has been obtained from sources believed to be reliable but is not warranted as to accuracy or completeness. Past performance is no guarantee of future returns. For tax or legal issues consult with a qualified tax advisor or attorney. Investments when sold may be at a higher or lower price than when purchased. Refer to your custodial account statements for securities holdings and values.

suggested that it may be 2% to 3%. Finally, we know that there is no vaccine for the virus. There is hope that a vaccine may be created and tested in a matter of months, but from there to widespread vaccinations may well be several more months in a best-case scenario.

In China, where well over 75,000 cases have been reported, the death toll now stands at 2,236, or about 3% of reported cases. While that is statistically a minor mortality rate, it is large enough that use of restaurants, supermarkets, shopping centers, and domestic transportation have been dramatically reduced. If the infection spreads to the U.S., we can expect the services sector to suffer a very significant downturn. With the manufacturing sector already in a recession, the probability of a broad - scale although relatively minor recession in the U.S. this year is rising.

The good news is that epidemics, or pandemics, tend to burn themselves out after a limited period of time. An article published in the journal *Nature* suggested that the epidemic will peak in April or May in China after infecting about 40% of the population. If we presume that model to be correct, the economic threat should be over or at least greatly reduced by the end of the year. Between now and then, uncertainty is the rule. We can safely assume though that there will be an economic impact this year. This bears watching.

Until next week, we remain at our posts, vigilantly watching the tea leaves of the economic data for signs of the future.

Jeffrey W. McClure CFP®
M.S. Personal Financial Planning

Jacob A. McClure, CIMA®

Information contained herein has been obtained from sources believed to be reliable but is not warranted as to accuracy or completeness. Past performance is no guarantee of future returns. For tax or legal issues consult with a qualified tax advisor or attorney. Investments when sold may be at a higher or lower price than when purchased. Refer to your custodial account statements for securities holdings and values.