jeff@tpwc.com

THE PERSONAL WEALTH COACH®

An SEC Registered Investment Adviser

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

TPWC

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

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

Serving Investors Since 1982

www.tpwc.com

jake@tpwc.com

March 6, 2020

TPWC Market and Economic Update

The Markets

Reading the headlines, one could easily be forgiven for thinking that Armageddon was at hand and the stock collapse of 1929 was a mere shadow of what was happening now. The reality was far less exciting. The S&P 500 Stock Index (SPX) rose 0.61% for the week ending March 6, closing at 2,972.37. That is not to say the "correction" is over. The SPX is still down about 12.2% from its high point on February 19 but this week with its dramatic ups and downs was far less stressful than last week's 11.5% decline. The bulls and the bears fought fiercely all week with the Index climbing as high as 3,127 twice before retreating to about 2,900 then ending the week somewhere in the middle, but higher than at the end of last week. The question is not whether the coronavirus will become an epidemic in the U.S., as that is currently assumed to be a given, but whether fear of the virus will trigger a major domestic economic downturn.

The ten-year U.S. Treasury note, the benchmark for all U.S. bond rates, closed at a record low yield of 0.767%. For a point of reference, one year ago the 10-year T-note was yielding about 2.7%. As a sort of bright spot, the Federal Reserve's reduction in its overnight interbank rate by 0.50% effectively erased the inverted yield curve we saw last week. Still, the one, two, three, and five-year notes are all well below the interbank rate, indicating the bond market is forecasting a significant slowdown in economic activity over at least the next year. West Texas Intermediate crude oil (WTI) agreed with the bond market this week, closing down 5.31% at $41.57 as world-wide demand for oil shriveled and supply built up in the U.S. WTI is now down over 32% from the beginning of the year.

The Economy

Looking at the economic data released for the week ending on March 6, an objective observer would conclude that the U.S. economy was in good shape. Admittedly, growth was slowing with manufacturing looking stressed by the tariff wars and the consumer beginning to slow spending growth, but still on solid footing. The Labor Department released its February employment report and estimated we generated a net 273,000 jobs in February. The official unemployment rate dropped back to a half-century low of 3.5% and average wages were up 3% from this time last year. As a footnote to that report though, there were anecdotal reports from survey respondents suggesting that future hiring may be put on hold and layoffs were possible if the virus epidemic spreads to America.

Echoing that concern, the IHS Markit U.S. services index fell to 49.4 from last month's 53.4 on a scale where numbers above 50 indicate growth and below 50 indicate shrinkage. That reading indicates that the business activities of service industries in the United States are already starting to contract. At the same time, the Institute for Supply Management (ISM) also reported significant business disruptions were being reported in the service sector.

The Federal Reserve executed an emergency interest rate reduction of 0.5% to a range between 1-1.25% for its overnight interbank rate. That emergency rate cut was the first one since 2008 as it became apparent the economy was in trouble during the mortgage-bond crisis. Historically, an emergency half-percent rate cut by the Fed has been reserved for serious economic threats and, to date, has been followed by a recession. The good news is that the Fed is not waiting for the bad news to officially be confirmed a month or more after the fact, but rather is getting ahead of the power curve.

With infections now being reported in 24 states, including, as of Friday 17 confirmed cases in Texas, the COVID-19 coronavirus is here. Festivals like Austin's South-by-Southwest are being cancelled. It is apparent that any service that involves people gathering is going to be hurt. Airlines are already seeing large-scale cancellations. It is no longer a question of "if" we have an epidemic here in the United States but more one of how long it will last and how big will be the short-term economic damage.

As we have written before, it is not going to be pretty, but the nature of this economic crisis is very temporary. Given the history of viral epidemics, six months from now the worst will likely be over and by the end of the year it will be history. Meanwhile, it is good to recognize that any attempt to get out of the market and get back in at the right time is very likely to be a good way to lose money. Our underlying economy is in good shape and the virus has a short time on stage before we return to normal. As it says on the cover of *The Hitchhikers Guide to the Galaxy,* in bold letters, **"*Don't Panic!*"**

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®