THE PERSONAL WEALTH COACH®

An SEC Registered Investment Adviser

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TPWC Market and Economic Update

The Markets

The S&P 500 Stock Index (SPX), representing the stock market, registered a 14.98% fall for the week ending March 20 closing at 2,304.92. The only good news was that it was a bit lower mid-day on Wednesday, so the last half of the week represented a sort-of stability, at least in relation to what we have seen over the last month. The SPX is now down 31.93% from its recent high of 3,386 a month ago. Another small bit of comfort can be had from remembering that the bear markets of 1973, 2002, and 2009 all declined over 50% yet we survived and went on to prosper.

The yield on the 10-year U.S. Treasury Note rose 11.76% for the week to close at 0.857% but with the 90-day T-bill effectively yielding 0%, at least the yield curve was not inverted. Oil, or more specifically, West Texas Intermediate crude oil (WTI) is the real pessimistic indicator. It closed at $19.85, down almost 36% in just one week and down over 67% year-to-date. Crude oil in the United States is now down to the same dollar price it was in the early 1970s before the Arab oil embargo.

The Economy

There is a lot of anecdotal evidence that we are probably already in a recession but just don't recognize it yet. As we have written many times before, the official economic statistics are a lagging set of numbers simply because it takes weeks to months to assemble all the data and carefully comb out the noise to get to the heart of what happened. What we do know is that we have reports of state employment offices around the country being overwhelmed with unemployment filings. On the other side of that coin, Wal-Mart, Amazon, and Kroger, three of the largest employers in the nation, announced they are temporarily hiring over 100,000 new employees each. Unfortunately, even that massive hiring opportunity may not make much of a dent in the potential layoffs we are probably about to see.

About 17 million American workers are in the food service, leisure, and hospitality industry and most of them have or are about to temporarily lose their jobs. The total wages of those who work in that industry, serving in restaurants, cafes, lodging, and entertainment, amounts to about $381 billion, or about 2.24% of the U.S. GDP. As our GDP was only growing at about 1.5% in the first quarter before the pandemic hit, the losses in that one industry alone probably are sufficient to put us into a recession. Compounding that figure is the fact that those service workers commonly live from paycheck to paycheck and their sudden cessation of income equates to a massive hit to the retail sector as well. Add in another three-quarters of a million lay-offs in the airline industry and you can see how this becomes a major issue.

If there is a bright spot here it is that once a vaccine is created and we, as a population, are inoculated against the coronavirus, pretty much all of us will want to go out to eat and many will want to go on trips to anywhere but home. At that point the jobs will reappear just about as suddenly as they vanished. The difficulty national policymakers are facing is how to help those employees and business owners through the interim. We have heard objections to "bailing out" the airlines and other companies that will fail without government assistance, but if the companies are not there on the other side of this pandemic, it will be a long, slow slog to get the industries that have shut down started again. That could be the difference between a recession that is severe but brief and a full-blown depression.

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The other set of highly predictable bad news we will see in the next six weeks or so is scenes of hospitals with sick and dying patients on cots in the hallways. That is already happening in Italy and the ICUs of hospitals in New York City are already turning away desperately ill patients. The only surprise we are seeing in the data from Italy and NYC is the large number of younger people in the ICUs fighting for their lives. The reports are suggesting that young adults did not heed the social-distancing message and as a result are getting sick in much higher than expected numbers. Be prepared for some unpleasant news for about the next 45 to 60 days. After that things should appear to get better but don't let down your guard. There almost certainly will be a second wave of infection, probably in the fall, once we begin getting out and about again.

Meanwhile, keep your distance, wash your hands, and if you are 65 or older or have a health issue, stay home and avoid contact with other people to the best of your ability. Avoid hoarding and if you can, contribute to your local food pantry. There are going to be a lot of people who will need help. We will get through this. How painful it is will depend on the actions of both our national leaders and us as individuals.

Until next week we remain on duty, albeit mostly digitally, watching and analyzing and planning to get through and out on the other side.

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