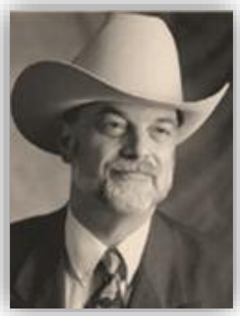

THE PERSONAL WEALTH COACH®

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March 24, 2020

TPWC Market and Economic Update – Special Edition

The Markets

There's been a LOT of bad news lately, but today the stock market broke another record, or at least a record held since 1933. The Dow Jones Industrial Average (the Dow) rose 11.37% today to close at 20,704.91 while the S&P 500 Stock Index (SPX) rose 9.38%, closing out the day at 2,447.33. That leaves the SPX up 6.3% for the first two days of this week. The Index remains down a painful 24.25% year to date and over 13% for one year but any glimmer of relief lets us know the bulls are still in the game. How far the market has dropped depends on how frequently you look. So far, it is down 27.7% from its record high on February 19. As bad as that is, it is only about half as far as it fell in 2008-2009 or in the other major bear markets of the past 50 years.

Yes, the market has had other false starts at recovery before this but since every news source has been announcing the negative records, when a positive record is effectively broken, it needs mentioning! The record percentage rise for the Dow in a single day occurred on March 15, 1933 as it rose 15.34% in the midst of its recovery from the crash of 1929. Perhaps the more appropriate comparison would be to September 21, 1932 when it rose 11.36%, marking the beginning of the market recovery during the Great Depression.

Does this surge mean this bear market is over? Probably not. What it does reflect is some degree of return to sanity in the markets. Morningstar.com estimates the median stock in the U.S. stock market is currently priced at 75% of its fair market value for long term investors. That doesn't mean that irrational fear has suddenly gone away though. Far too many investors are not really long-term investors, and as this works its way out, we suspect we are going to see who they are.

The ten-year U.S. Treasury note yield appeared to stabilize and closed out Tuesday at 0.848% after the Federal Reserve started buying and, in some cases, selling Treasury securities along with mortgage and municipal bonds. Chairman Powell's promise to "do whatever it takes" to stabilize credit markets looks like it is working. West Texas Intermediate crude oil prices also stabilized, rising 2% on Tuesday and up nearly 10% over the trailing five days to about $25 per barrel. Once again, the government's pledge to buy up to 30 million barrels of oil for the strategic reserve appears to have halted the panicked selling.

The Economy

Long-term investors must firmly believe that in five or ten years the United States of American and its capitalist, corporate economy will still be here and still be on top of the world. We recognize that we just left out the rest of the world, but frankly there is truth in the old market proverb, "If the United States catches a cold, the rest of the world comes down with pneumonia." Whether any given person likes it or not, we are in the middle of the economy on which the rest of the world depends to make a living. Both the major Asian and European economies are export-based, and their prime customer is America. We are consumer based and that makes our economy far more stable than theirs. That is not a nationalist statement, it is rather a simple reality. How long will this last into the future probably depends on the degree to which we remain free to innovate and argue and disagree with our leaders. So far, things look pretty good from here.

There were two bright spots in the economic news early this week. First, the Federal Reserve announced it would do and buy whatever it takes to stabilize the credit markets. Its money market backstop desk is in place and the SEC announced it will allow parent companies to inject funds into money market mutual funds to stabilize them. Goldman Sachs promptly did so and stabilized two of their funds that were suffering overwhelming redemptions.

The second piece of good news was that the Senate appears to be close to passing a bill, estimated now at $2 trillion, to provide loans and grants to companies and individuals impacted by the pandemic and mandated closures. At the same time the Treasury was asking its prime dealers to give their opinions on the marketability of 50-year Treasury bonds to finance that pending bill.

In the real economy, the worst of this is yet to come. Anecdotal reports suggest that there are a significant percentage of Americans who still think the threat of this pandemic is overblown. Reality will not set in for those who are still doubting until their local hospitals start having to not give beds in intensive care to people who would otherwise die. At some point we will likely all know someone who died from COVID-19, and some of us will probably know more than a few. That expectation is not from some vague theory bur rather from the areas in Europe where the pandemic has been running longer and demonstrated what it does in a free and open society. The number of identified cases both there and in the United States are continuing to rise at about 33% per day. That means the infection is doubling about every three days. New York City has about 53,000 hospital beds, unfortunately as many people ignored the social distancing orders, the number of beds needed is now being estimated at about 140,000.

As we have written before, we will get through this. Even the most pessimistic estimates are predicting a near-full economic recovery by the end of 2021. Fortunately, the stock market is a leading indicator and tends to move well ahead of the economy, both up and down. There are some rough seas ahead, but we are in a sturdy ship with an exceptional crew. We have been through worse and come out more prosperous than we went in. In that aspect this is no different.

Meanwhile, we, here at The Personal Wealth Coach are ready to listen, advise, and just hear you out. We continue to work primarily from home but are fully staffed and ready to help. Don't hesitate to call or email.

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