THE PERSONAL WEALTH COACH®

An SEC Registered Investment Adviser

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TPWC Market and Economic Update

The Markets

Reversing its recent trend, our preferred stock market indicator, the S&P 500 Stock Index (SPX) rose what would have been in other times a startling 10.26% to close at 2,541.47 for the week ending on March 27. That otherwise impressive rise is far from a recovery as the SPX is still down over 21% so far this year and almost 25% from its high last month. While a 25% decline is still a bear market, we will take what we can get. Anecdotal reports suggest that at least part of the panicked selling that took the Index down well over 30% at several points came as a result of highly leveraged hedge funds rushing to unload stocks to cover their loans. On the brighter side, corporate insiders, executives of publicly traded companies, appeared to be purchasing their own companies' stock at a near record rate during the week. Comments in the Wall Street Journal article included statements like, "This doesn't justify a 30% fall in stock prices."

At least so far in this event, the yield on the benchmark 10-year U.S. Treasury note appears to have hit its lowest point on March 9 when it closed at 0.569%. It closed this week at 0.72% but that yield was down well over 30% from a week ago. Because the 90-day T-bill was yielding 0.03% at the close of the week, the Treasury yield curve is showing a healthy positive slope, forecasting better times ahead in 12 to 18 months. The President has been asking for negative rates here in the U.S. for some time and he got his wish on Wednesday and Thursday as the 90-day T-bill annualized rate dropped to -0.05%. Looking back one year, it was about this time in 2019 that the Treasury yield curve inverted, and we warned that the inversion was forecasting a recession in 2020. West Texas Intermediate crude oil (WTI) prices made a valiant effort to rise during the week and actually rose 9.93% but the closing price on Friday was still only $21.82 per barrel. Futures contracts for August of this year only have it priced at $30.33 and prices like that spell doom for many oil companies.

The Economy

Big negatives and big positives abounded during the week. Goldman Sachs forecast a 25% reduction in U.S. business activity for the second quarter and a record 3.38 million workers applied for unemployment compensation for the week ending March 21. Economists appeared to universally warn that the record unemployment claims rate was only the tip of the iceberg and the totals would go into the millions, dwarfing the total layoffs we saw in the financial crisis of 2008-2009. The positives included the U.S. Senate setting aside partisan animosity and passing a coronavirus relief act unanimously. The House of Representatives almost did the same as leaders from both parties agreed that they should unite to send the bill to the President even though at least one representative threatened to stop the show. The passing of the $2.2 trillion CARES Act, signed by the President late Friday, was like a breath of pure oxygen to the economy and demonstrated that our lawmakers were, at least for the moment, nearly all willing to work together for the good of the nation.

Meanwhile, the IRS delayed the income tax filing deadline to July 15, and the CARES Act allows people who would otherwise have to take required minimum distributions from their IRAs to not do so for 2020 and to reinvest an amount equal to what they had taken already this year. If it is coronavirus related, IRA owners can take up to $100,000 from their accounts without penalty and spread the tax due over three years. They also have the right to reinvest what they took out and get the taxes waived! Any time the IRS and Congress decide to work together to make life easier for the public is a time to rejoice!

In the midst of all of this, the SEC waived rules that would have prohibited companies that managed mutual funds from injecting money into the funds to stabilize them. Goldman Sachs and others quickly shored up the reserves of money market funds and stabilized them at their standard price of $1.00 per share. Adding to the positive moves at the highest levels of the U.S. financial system, the Federal Reserve created a backstop for money market funds and first pledged and then took action to buy municipal bonds, mortgage bonds, and other debt securities when there was evidence of a lock-up in a market that suddenly had a host of sellers and no buyers. In short, the federal government and the Federal Reserve (No, they are not the same thing!) have taken substantial and vigorous actions early in this crisis to limit the economic damage.

All of the positive moves are a good start, but the worst of what we are to face is still in the future as an economy and as a national community. Frankly, despite surpassing the number of diagnosed coronavirus of China, we are still woefully ignorant of the actual number of people infected. Unemployment, infection, and deaths are far from their peaks. Historical examples strongly suggest that it will be August at the earliest before the infection rates drop to a level that will allow some degree of normalcy to return. Then, epidemics and pandemics have historically had a second wave that hits, often as hard as the first, once society lets its guard down.

This crisis is far from over, but we are working together more than at any time since 9-11. We will survive this, and we believe that the rebound on the other side will be at least as impressive as the shock on this side. Stay well and keep your distance and wash your hands. If you have the ability, contribute to your local food pantry.

Until next week we and our faithful staff remain at our posts digitally and in some cases, physically.

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