THE PERSONAL WEALTH COACH®

An SEC Registered Investment Adviser

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TPWC Market and Economic Update

The Markets

Once again if you are tirelessly following the news reports you could easily have concluded the theme song in the stock market for the week ending on April 3 should have been "Apocalypse Now" but the reality was not that bad. The S&P 500 (SPX) declined a relatively mild 2.08% for the week, ending at 2,488.95. On Tuesday, March 31, the President's news conference included a warning that the death toll in the U.S. would likely reach "100,000 to 240,000" and that announcement was credited with a minor selloff on Wednesday, April 1 that created almost all of the week's losses. That additional loss for the week takes the SPX down almost 23% year-to-date and almost 14% from one year ago. It is certainly not a pretty picture but far better than it could be.

The yield on the 10-year U.S. Treasury note fell another quarter point to 0.593% at the end of the week but with the 90-day T-bill only at 0.097%, the yield curve was definitely positive even at the record low interest rates we are seeing. A year ago, the curve was clearly inverted, forecasting a recession, and if one believes in the prophetic nature of the Treasury yield curve, it is forecasting we will be back in solid, if perhaps limited, economic growth territory a year or so in the future.

West Texas Intermediate crude oil (WTI) staged an impressive partial comeback as the price per barrel in the front month futures market surged almost 33% to close out the week at $29 per barrel. The jump in prices was based on a comment from President Trump that the Saudis and the Russians were negotiating a production cut, which the Russians almost immediately denied. The difficulty with the Saudi proposal was that it also demanded that U.S. cut production. With many oil producers facing bankruptcy and no national authority that can force independently owned oil drillers to curtail operations, it is questionable that a real agreement will emerge.

The Economy

The headline economic news this week was that about 7.1 million newly unemployed workers filed for unemployment insurance last week. Combined with last week's 3.3 million filings that raises the official figure for layoffs to almost 10 million in two weeks. Then, the Labor Department released the official monthly unemployment figures estimating that employment fell by 701,000 in March, raising the total official unemployed figure to 7.1 million and 4.4%. The two sets of numbers clearly are from different universes.

The problem with the official unemployment figures for March is that they are the result of a survey that ran from March 7 until about March 14 and did not capture the layoffs in the last half of the month. Despite the fact that this official March increase in unemployment from 3.4% to 4.4% was the largest one-month rise in unemployment since the survey started in 1948, it is but a shadow of what we will see next month. Estimates are that as much as 40% of the newly unemployed have not been able to file yet. It is reasonable to expect the total unemployment rate to rise to a level from 10% to 15% or more when we get April's report a month from now.

The big questions are, "How bad will this get?" and "How long will this last?" There is a consensus among seasoned, well respected analysts that it is going to get a lot worse before it gets any better. We have been reviewing various models based on the exponential contagion and death rate in Italy combined with the figures from 1918 and they all suggest a median forecast of one to two million deaths in the U.S. based on the about 50% social distancing compliance that is going on. As to how long it will last, the most reasonable models we have reviewed suggest that the contagion will tail off sometime in mid-August for much of the nation, but a second wave will be started as the restrictions on gathering and business activity are relaxed.

Every indication we see suggests that we are already in a recession and that we will see a negative GDP annualized growth figure for the first quarter and a record level of economic contraction in the second quarter. Sadly, we also suspect the third quarter of 2020 will also be one in which the U.S. economy contracts. The only good news is that we continue to see a recovery starting toward the end of 2020 and getting its legs in 2021.

The other thing we are confident of is that there will be a massive change in the way we do business and function as an economy and as a society as we emerge from this crisis. The old demand for high efficiency and lowest cost ways of doing business will be replaced with a powerful impetus toward resiliency. Much of our critical supply sourcing will return to America but as we did not and do not have enough workers to do the work, automated systems will dominate the new economy that will emerge. We believe that automation trend will fuel a decade of expansion greater than any we have seen before. Between here and there are some rough times, but the future on the other side of this storm is bright.

Until next week, we and our always faithful staff remain at our digital posts ready to assist, console, or just converse with you about just about anything you want to talk about.

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