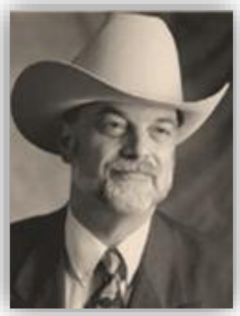

THE PERSONAL WEALTH COACH®

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TPWC Market and Economic Update – Special Edition

The Markets

We normally like to look at the U.S. stock market, as defined by the S&P 500 Stock Index (SPX) every five days or so, but in this viral event, we have been shortening our time between views since things are moving so fast. The view so far this week is pleasant with the SPX having risen 6.86% to close at 2,659.41. That puts our favorite index "only" down about 21% from its high point on February 18, and down 17.85% year-to-date. Today's close puts the index up almost 19% from its bottom back on March 23. Once more, all depends on one's point of view as to whether the glass is half-full or half-empty!

The stock market appears to be discarding the worst-case scenario as the number of newly diagnosed cases continue to rise but appear to be no longer rising as fast as they were in percentage terms both in the U.S. and Europe. To use a nautical metaphor, the ship is still taking on water faster than the bilge pumps can pump it out, but it appears to be sinking at a slower rate. That inherently negative metaphor is not to suggest we think the ship is going to sink but rather that the worst in the infection and death tolls are still to come. Again, the stock market does not reflect the current or even immediate future sentiment but rather is a suggestion of what investors see as the position the economy will be in a year or more in the future. March 23 may have indeed been the bottom in this bear market, but it is far too soon to tell. In our opinion, the rough ride is not yet over but stock investors appear to believe collectively that things will not be so bad in a year or so.

The ten-year U.S. Treasury note yield lurched upward almost 20% in the last two days, but considering it started at 0.596% that still held the yield to only 0.741%. Still, with the 90-day T-bill at 0.165% the yield curve remains decidedly positive, albeit at yields below 1%, something we have never seen before. After reaching almost $30 per barrel at the end of last week, as we thought would happen, West Texas Intermediate crude oil (WTI) sunk back to $24.26 but at least is not back to the $20 per barrel level it was at the beginning of the month.

The Economy

Across the board, surveys are indicating that the wages and general output of American business have dropped between 25% and 29% since mid-March when we began to take the threat seriously. Given that data point, the stock market's decline appears to be rational. Another survey sponsored by the Financial Times suggests that 73% of Americans have seen their family income reduced and 24% saying their income cut was "very significant."

While that forecasting mechanism, known as "the stock market," seemed to reach some degree of stability, internally the picture has a lot of contrast. Energy stocks, like the rest of the market, enjoyed a bump upward in the last few days, but are down over 46% this year. The news in the Texas oil patch is not good. 50 oil and gas related energy companies have filed for bankruptcy in the last year and a second wave of defaults appears to be in the making. While the larger companies have deep reserves of cash, many of the mid to small-sized companies were hanging on by a thread before the double hit from the coronavirus-related demand crash and the all-out price war between Russia and Saudi Arabia.

Unless you are an oil investor, your first reaction may be to shrug your shoulders, but if you live in the state of Texas, Louisiana, or another oil state, get ready for the hit. Texas is rather dramatically dependent on the royalties the state gets and the taxes it receives on oil production. More, a big chunk of the Texas economy, is based in the oil business in Houston and across the state. The last time we had an oil price bust of this magnitude was back in the 1980s and in that crunch, Texas was hurting. A LOT of the money that pays for public education here in the Lone Star State is a direct result of us being the center of oil production in the U.S. When a bunch of that money goes away, we will be forced to either raise property taxes or cut education funding to a level that will probably be illegal under current laws. Then, there is the fact that the banks, many of them domiciled in Texas, that financed the fracking boom in West Texas are suddenly going to find their borrowers defaulting. The last time around we saw a real estate bust that followed the oil bust and there is already evidence that is repeating. Commercial tenants in Houston are warning their landlords that they simply can't pay the rent.

All of this is to say we are not though the darkest days of this crisis and probably will not be for several months. We have warned for some time that a recession was coming and there were a lot of "zombie companies" hanging on by borrowing money to cover their loans as they came due. Those companies will be dropping out of the system and there will be some "very significant" financial pain as they do so. The important thing to remember is that our system is robust and as unpleasant as this is, in a free, capitalist system the price we pay for our success is that from time to time we go through a very unpleasant but absolutely necessary cleansing process.

Those businesses and families who saved for a rainy day and held their expenditures to a reasonable level will come out on the other side to a brighter future and look back on this much as we looked back on the oil and real estate crisis of the 1980s. That crisis marked the end of an era, but it also marked the beginning of one of the larger economic booms we have ever seen. These cycles come and go. They always have and probably always will.

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