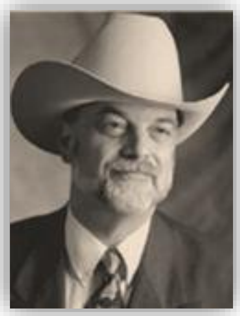

THE PERSONAL WEALTH COACH®

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TPWC Market and Economic Update – Special Edition

The Markets

The S&P 500 Stock Index (SPX) lost about 1% on Monday then rose about 3% on Tuesday (today) to close at 2846.06 for a net rise of 2% since Friday. Rises and falls of 1% or more used to be rare events but look placid in light of the market moves of the last month. The two days since we last reported puts the SPX down just under 16% from its last record high back at the end of February and up over 27% from the bottom it hit on March 23. Goldman Sachs seems to think that this rally is for real although others are still cautious.

We must admit that with megabank JP Morgan reporting today that its profits fell 70% in the first quarter, that it is bracing for a severe recession, and is setting aside another $6.8 billion to cover loan defaults, seeing the market rise makes a strong statement for something. JP Morgan also forecast the unemployment rate to hit 20% in the second quarter and the US GDP to contract 40% as it closed hundreds of local branches. The remarkable thing was not the horrific bad news, but that the market had apparently braced itself yesterday for even worse news, causing it to rise 3%. That behavior is indeed the type of thing we see at the bottom of a bear market. Still, only time will tell.

The ten-year U.S. Treasury Note yield rose 2/100 of a percent to 0.747% putting the yield up over 25% over the last five trading days and increasing the positive yield curve. West Texas Intermediate crude oil futures went the other way as the reality of the immensity of the oil oversupply began to sink in. Reports from west Texas are that companies are unable to find buyers for oil priced at $10 per barrel while the pipelines are backed up and there is literally no place to store the oil being pumped out of the ground. Global oil storage is currently estimated to be 70% full, but in some locales, it is clearly at 100% with no way to get it to storage elsewhere. Oil companies are shutting down entire oil fields, a move that we have not seen in our adult lifetimes.

The Economy

There are more anomalies popping up in the economy that we can find at any other point in history. At least part of that absence of "this has happened before" comes from the fact that it was only in the late 1920s that we, as a nation, started recording the detailed economic data we take for granted today.

An example can be seen in the assumption that a portfolio of rental properties, residential or commercial, was a safe place to invest one's money. After all, people always need a place to live and go to work and in a relatively stable local community what risk could there be? The risk, as it happened, was that if a large percentage of low-income workers, who tend to be renters, suddenly lost their jobs all at once they suddenly would not be able to pay the rent. The same issue applies to small business owners in a strip center. If the rental property investor had a mortgage, as many do, then from whence will come the money to pay the mortgage? The growing rental crisis is not just limited to investors who own individual properties but also applies to the "alternative" investments like leveraged real estate partnerships and trusts. More, real estate is not a particularly liquid asset, as investors in non-traded "alt" real estate trusts are suddenly discovering.

One thing that is growing progressively clearer is that this crisis will not be over in the near future. Places like Singapore that thought they had the pandemic under control and started to open up again were shocked to find that as soon as the assembly restrictions were lifted they saw an explosion in new cases and have had to lock down their populations for a second round of isolation. Most analysts are now forecasting a "W" shaped recession with a surge in economic activity when the economy opens up again, probably in the summer of this year, followed by a second contraction as the second wave of the virus hits.

The good news is that there is a general consensus among economists that this will not be a "L" shaped recession like we saw in the "great recession" that started in 2008. Rather, there is an end to this event that will come when we develop and deploy first tests to determine who has already had the disease and is thereby immune and second when we develop and deploy an effective vaccine. Unfortunately, that last solution will probably not arrive until sometime in hopefully early 2021. The stock market appears to see that event coming, so now it is up to us to be patient until the cavalry (vaccine) troops arrive.

Until later this week, stay safe, stay well, and stay at least six feet from others! The coronavirus has not greatly impacted Central Texas yet but that does not mean it is not going to.

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