# THE PERSONAL WEALTH COACH®

**An SEC Registered Investment Adviser**

*Jeffrey W McClure* CFP® *Jacob A McClure* CIMA®

PO Box 1029 / 918 N. Main Street
Salado, TX 76571

(254) 947-1111
(800) 914-7526

*Serving Investors Since 1982*

www.tpwc.com

jeff@tpwc.com

jake@tpwc.com

**April 17, 2020**

## TPWC Market and Economic Update

### The Markets

Our preferred U.S. stock market indicator, the S&P 500 Stock Index (SPX) turned in another solid week, rising 3.04% to 2,874.56. That rise in value masks the several over one percent rises and falls during the week as the bulls and the bears fought over what shape corporate America will be in six months to a year from now. For now, the bulls appear to be winning. The SPX is still down over 15% from its top back on February 18 but is up a whopping 28.5% from its bottom on March 23. Year-to-date it remains down over 11% and is down just over one percent from a year ago.

The selloff in the stock market is now about two months old and some constructive data has emerged. The initial collapse in values appears to have been caused by mass institutional selling as highly leveraged hedge and private equity funds rushed to liquidate stocks to pay off their loans. The second wave, that took the market down well below what corporate insiders appear to have considered fair value, came as individuals and institutions sold whatever they could sell to raise cash as business revenues and wages dried up.

What was missing was the panicked selloff by individual investors that normally marks the final stages of a market value collapse. Individual investors appear to have taken the rational approach that this is not the end of the world and things will be better in a year or so and started buying rather than selling. Deep pocketed companies with products people need now or will need and want when the lockdown ends are leading the way back. Dragging the averages down are the companies that may not survive or are likely to not have a product or business model that will enable them to snap back. As a result, five companies, Microsoft, Apple, Amazon, Alphabet, and Facebook now make up 22% of the total market value of the S&P 500, the most concentrated the index has ever been.

The U.S. Treasury ten-year note yield continued its slow but erratic climb back from its record low, closing up over 8% at 0.644% and the Treasury yield curve remains positive, suggesting better times are ahead. Unlike the T-note and the stock market, there were no dramatic moves in oil (WTI) for the week as it sagged quite consistently from day to day and ended the week down a depressing 21% to close the week at $18.28, the lowest it has been in 18 years. As we have reported before, the historically large oil production cut by OPEC and Russia failed to equal the collapse in global demand.

### The Economy

We've heard questions about whether the economic shutdown is justified. We ran a few numbers to try to find an answer. First, we recognize that testing for infection has been low here in the U.S., so a lot of infections are not being reported. On the other hand, there is a lot of evidence that a large proportion of the deaths from COVID-19 have been missed as well, again because the victims were never tested. Still, the numbers are sobering. As of this writing, April 17, the mortality rate in the U.S. is running at 5.1% of confirmed infections. Globally, it is at 6.7%. Italy is reporting a 13.1% death rate, China 5.6%, and the United Kingdom 13.4%.

The standout is South Korea where millions of people were tested without waiting for symptoms and where the death rate is 2.2%. The huge difference between those rates appears to be credited to the fact that South Korea was ready with test kits and went into immediate community lockdowns as it swarmed individual cases and identified all who had been in contact with an infected person. In Italy and the U.K. public assembly was not limited until much later.

Those nations with the mid-levels of mortality instituted delayed but effective national lockdowns and isolation. Even at the low 2.2% mortality seen in Korea, if only 20% of Americans were infected about 1.5 million deaths would follow. Those numbers make the current policy of "shelter in place" look more acceptable as a method to slow the spread of the disease.

Meanwhile, the economic damage of that life-saving lockdown is becoming more apparent every day. J. Crew, J.C. Penny and Neiman Marcus, three icons of our retail culture, all missed bond interest payments this week, strongly suggesting bankruptcy is at hand. Retail sales officially fell 8.7% in March, but April's sales decline is already estimated to be far, far greater. Clothing sales fell over 50% for the month, again with larger numbers likely to follow. Retail stores are reportedly not paying the bills due to their suppliers, creating a ripple effect through the supply chain. A major pork-processing firm, Smithfield Foods, has shut down multiple plants because of COVID-19 infections in the worker force, cutting a significant portion of the national supply of pork to grocery stores.

The final word remains the same. As an economy and as a nation, we face challenging times ahead and we very well may not have seen the worst of this storm, but we are a resilient people and have a robust, and vibrant economy that will come through this and go on to better times to come. What we most need now is the patience to stay sheltered until we have a good solution. That solution is being developed and will arrive in due time.

Until next week, stay safe.

Jeffrey W. McClure CFP®
M.S. Personal Financial Planning

Jacob A. McClure, CIMA®