THE PERSONAL WEALTH COACH®

An SEC Registered Investment Adviser

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April 21, 2020

TPWC Market and Economic Update – Special Edition

The Markets

The S&P 500 (SPX) closed today at 2736.56, down 4.8% in the last two days. That close marks a decline of 19.18% from its top in mid-February but a gain of 22.31% from the low point reached in late March. It is down 15.30% year-to-date and is now down 6.72% from one year ago. The apparent proximate trigger for the nearly 5% decline this week was the collapse in oil prices. More on that below.

The 10-year U.S. Treasury note ended the day with a yield of 0.564%; a substantial decline from last week's close as the yield reversed its slow climb over the past couple of weeks. The Treasury yield curve remains solidly positive as the 90-day T-bill is only producing an annualized yield of 0.105%.

The big market news was that the price of a "Front Month" contract for West Texas Intermediate (WTI) oil delivery slammed down to a negative $40.32 at one point on Monday before recovering to about $1.50 by the end of the day. Today (Tuesday), it again cratered mid-day to a negative $10.00 before closing out the day at a positive $9.06 per barrel. The essence of what happened is that the futures contracts for April expired today causing the holders of those contracts to be forced to take delivery of the oil. Given that available oil storage is not to be had anywhere convenient, those left holding the contracts were paying others to take delivery and find a way to transport and store the oil. After the futures contracts expired, the real, current price of WTI barrels emerged at about $9.00. Contracts for delivery in June dropped about 7% to $13.50 while the July price, after dropping about 6%, closed at just over $20 per barrel.

It's hard to get our minds around the fact that WTI was priced at $66.60 a barrel just one year ago. The double whammy of a Russia-Saudi price war and a global transportation near-shutdown has produced a situation unlike any ever seen before.

The Economy

The ripple effects of the collapse in oil prices can only be guessed at for the present, but they strongly suggest that there will be far more pain for companies and communities dependent on oil production, processing and trade. Bankrupt oil companies and oil service companies can't make their loan payments or pay their rent on real estate. That knock-on effect hits the equipment companies, steel companies, shipping companies, and banks and will hit them hard. Unfortunately, the worst is probably not over as the major world oil producers are still pumping at full tilt as the production cuts they recently agreed on do not take effect until June. Meanwhile the cost to rent a very large crude carrier ship has risen around 700% as the demand for somewhere to store oil skyrockets. A glimmer of possible good news can be seen in the fact that the futures contracts for WTI oil are sitting around $30 per barrel for September delivery.

Another flash of hope emerged today as the Senate and White House agreed on an expansion of the Paycheck Protection Program coupled with financial assistance for hospitals and more funding for virus testing totaling about $480 billion dollars. The House is expected to vote on the bill on Thursday where it is expected to pass on a voice vote.

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That new roughly half-trillion-dollar bill raises the question, "How are we going to pay for all of this?" Unlike the rest of this particular crisis, we have faced that issue before. Following World War II, the U.S. faced a debt overhang that in terms of percentage of GDP made our current spending and deficits look moderate. Pundits and politicians almost unanimously forecast a deep and sustained depression would result from the huge debt and the tax rates needed to rein it in. Instead what happened was the "post war economic boom" of the late 1940s and 1950s.

Indeed, the federal income tax, instituted as a "temporary emergency measure" to support the war effort, remained with nominal top brackets of as high as 90% for the very top income earners. Those high rates were necessary to hold the debt and its interest rates under control but did not produce the devastation they were forecast to create. Instead, the prosperity, health, and general well-being of the average American soared. We finally effectively paid down the debt to a sustainable level by the early 1960s when President Kennedy proposed and got a reduction in income tax rates, triggering yet another economic boom. All that has to happen for us to manage and even benefit from this over the long term is for our economy to grow faster than the debt, including interest. If we can manage that, then we can grow our way out of it.

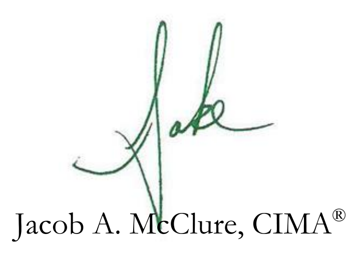
Another alarm was raised this week as it became apparent that the unemployment trust funds maintained by the various states were headed toward zero at an alarming rate. Texas, for example has already seen its unemployment fund drop by 30% from merely the first wave and first month of jobless claims. Fortunately, the crafters of the unemployment compensation insurance program decades ago at the federal level anticipated that just such an event as this might happen. The states have a virtually unlimited, zero-percent loan authority from the U.S. Treasury.

Pork was suddenly in short supply at grocery stores over the past few days and packaged foods may soon follow. Coronavirus outbreaks and deaths in food processing centers across the Midwest have caused meat packing plants and commercial food packaging plants to shut down. The good news is that they are now reopening, albeit at a slower production rate to allow workers to maintain a safe distance between workstations.

Some lessons can be learned from Singapore and Italy. Singapore appeared to have COVID-19 under control through extensive testing and an initial lockdown. Then as it opened up to do business again, new outbreaks surged to larger numbers than the initial wave, resulting in another lockdown. Italy failed to lockdown hard enough or seriously enough and was overwhelmed. The set of economic restrictions we are enduring is uncomfortable and, frankly, scary, but it has reduced the spread of the virus to the point that it has not overwhelmed our hospitals other than in New York and the surrounding areas where it got out of control. We should be thankful for our national and state leaders who have initiated some very unpopular and difficult restrictions on us as we deal with this crisis. The key to understanding here is to recognize that we must be patient. This crisis has a likely lifetime of a year or possibly more and we are only in the seventh week. We will get through this. Give thanks that you live in the United States of America where, even with all our warts and pimples, we are the most vibrant and healthy major economy on this planet.

We continue to believe that what we will see on the other side is a resurgent American economy that will lead the world into the booming decade of the 2020s. Be patient, be safe, and know we are here for you if you need to talk.

Until Friday, we remain with you and willing to provide full support.



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