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# THE PERSONAL WEALTH COACH®

An SEC Registered Investment Adviser

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## TPWC Market and Economic Update – Special Edition

### The Markets

Our old friend, the S&P 500 Stock Index (SPX), slogged forward another one percent in the first two days of this week, closing at 2863.39 marking a delightful 28% gain from its apparent bottom back on March 23. It remains down 11.37% year-to-date and down 15.44% from its all-time high in late February. Analysis and anecdotal reports suggest major investors are looking two years into the future for stocks that are likely to survive and are bargain priced today. If that is true, then this is the most rational bear market in our memory. The clear survivors like Amazon, Alphabet, Apple, Microsoft, and a few others are leading the way and driving the SPX value recovery.

The ten-year U.S. Treasury note yield continued its long, slow, bumpy slide closing down a whisker at 0.615%. That amazingly low 10-yr interest rate is 67% lower than it was at the beginning of the year when it stood at 1.87%, a nearly unbelievable rate at the time. The Treasury yield curve still remains relatively smooth and in a positive curve, unlike last year at this time when it was distinctly inverted.

Oil prices remain the shockers. West Texas Intermediate (WTI) oil settlement prices today closed at \$12.34 per barrel with the June futures contract closing at \$13.27. Notably, the indexes and funds that follow the oil futures market have eliminated the contract for end-of-May delivery as it is at risk of being priced below zero. The international oil benchmark, Brent North Sea Crude (BST) closed at \$22.74. The difference between the two prices was the simple matter of storage. In the U.S. we are very nearly out of places to store oil while North Sea Brent oil can be loaded onto tankers and simply left in floating storage. Despite the cuts, domestically and globally, more oil is being pumped out of the ground than is being used. The knock-on effects of this upside-down market are likely to be major and largely unpredictable. Nations are at risk of insolvency, not to mention many companies.

### The Economy

An example of what happens when social distancing cannot be practiced, and an essential industry could not be closed is becoming apparent in meat processing plants across the country. Meat packing and processing involves a lot of people working close together. Not too surprisingly COVID-19 outbreaks in meat plants have emerged, even in states and counties where the virus infection rate was otherwise low. About one third of domestic pork processing capacity is shut down.

John Tyson the chairman of Tyson Foods, Inc., the nation's largest supplier of meat warned, "The food supply chain is breaking." A similar warning was issued by Smithfield Foods, Inc., the largest American pork supplier. The notable issue here is that meat processing plants were deemed "essential" and allowed to stay open and in full operation by government authorities. As a result, a rush is on to source processed meats from overseas where the packing plants are still in operation. Note: the virus is not spread via food, so the meat is still safe, just in short supply.

We are getting used to seeing things we have never seen before but the news that the Federal Reserve has extended its municipal loan facility to offer effectively zero percent loans to municipalities with 500,000 or more citizens is another milestone in this historic crisis. Previously, the Fed has mostly limited its loans to member banks, the U.S. Treasury, and notably during the financial crisis of 2008-2009, the purchase of mortgage bonds. The Federal Reserve is the lender of last resort and only steps in when markets are about to lock-up and drag down the rest of the system.

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During the great recession and recently it has offered support to money market funds, but historically has avoided shoring up municipalities.

A double whammy has hit states, counties, and cities across the nation. As interest rates have declined to record lows for the ten-year Treasury note, municipalities are required to contribute more to their pension funds while at the same time sales tax and local income tax revenues have dried up. The National Governors Association has asked Congress for a half trillion dollars in grants. What is clear is that cities and states that were already on the edge are likely to see repercussions much as was seen in Detroit's and Puerto Ricco's insolvency. On a less dramatic level, local governments and even the State of Texas will face some hard choices given the dependence on oil revenues and sales tax, both of which are constrained, to say the least.

In a flicker of good news, Vanguard, an organization that has a well-deserved reputation for giving good, accurate future return estimates, is predicting a return of between 4.8% and 7.8% per year over the next decade for the U.S. stock market but only 1% to 2% for bonds while cash is forecast to yield 0.4% to 1.6%. Other historically reliable institutions have come out with similar predictions. The bottom line here is that bonds and cash will likely lag behind inflation, while equities will likely continue fill their historical role as the sometimes-scary place where growth occurs. As radical as our current crisis appears to be, those figures are very much in line with what we have seen in those asset class averages over a century or more.

The wisdom we can draw from this is that if you have a well-diversified, well-balanced portfolio, with good reserves, you are on the right course and should hold fast to the plan you made before coronavirus was a word that spellcheck recognized.

Until Friday, we remain alert and focused on getting us all through this storm. Feel free to call, email, or mail with your thoughts, your questions, or your comments. We also remain optimistic that a better world and economy lies on the other side.

Your obedient servants,



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