THE PERSONAL WEALTH COACH®

An SEC Registered Investment Adviser

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May 1, 2020

TPWC Market and Economic Update

The Markets

As April ended on Thursday, the S&P 500 (SPX) didn't quite set an all-time record, but it did record the best month for stocks since 1987, another year with a record-breaking collapse in market valuation, as it rose a whopping 12.68% in a single month. It did slip backwards 2.81% on Friday creating a loss of 0.21% for the week, closing at 2830.71, but following that marvelous April performance, we can forgive a bit of exhaustion on Mayday. Friday's close puts the Index down 12.38% year-to-date and down 16.4% from its top in February but up a healthy 26.52% from its low in late March.

The yield on the U.S. Treasury 10-year note was choppy for the week but continued its small weekly slide, dropping 2.7 basis points to 0.616% but still a lot higher than the 90-day T-bill at 0.107%, so the very depressed yield curve may be dragging the floor, but is still positive. The curve looks smooth and healthy if one neglects to note that the 30-year Treasury bond is only providing a yield of 1.25%, a number that traditionally would be low for the 90-day bill. West Texas Intermediate crude oil (WTI) finally seemed to find some footing, or perhaps just some overlooked storage room, as it rose to $19.69 per barrel, a nearly 15% rise in price over the last five days. Unfortunately, futures contracts all the way out to September are in the vicinity of $25 per barrel, suggesting hard times in the oil patch are far from over.

The Economy

The Commerce Department announced its first estimate of U.S. gross domestic product change for the first quarter of 2020 on Thursday and it was an annualized rate of negative 4.8%. Before you get too upset about that number, remember it is an annualized rate and really means that our economy shrunk 2.2% for the first three months of the year. That remains an unpleasant number but is likely not more than a blip compared with the probable number we will see at the end of this quarter. The Federal Reserve Bank of Atlanta is estimating the second quarter will see GDP declining at a 16% rate or about 4% for the second quarter. Overall, for the calendar year 2020, Kiplinger's is forecasting an economic contraction of about 4% to 5%.

The first reaction to that dismal news may be to blame the governments who have imposed lockdowns, shelter-in-place orders, and social distancing but they may not be the culprits. Sweden is largely unique in that it has not ordered any business closings or other economically damaging behavior for its population, yet the Swedish Ministry of Finance is also forecasting a 4% decline in their GDP for the year. Their explanation is that the population is self-sheltering and avoiding group settings at a rate not too dissimilar form that ordered across our country.

As bad as things are here, the Eurozone seems to be worse shape as their GDP fell at an annualized rate of 14.4% and nominally 4.8% for the first quarter, breaking all records since World War II. A factor in that large decline is the fact that the COVID-19 pandemic hit there first, but recent numbers suggest both the infection rate and the death rates in the United States may be exceeding that of the eurozone. Our advantage appears to be largely that we have a strong federal government capable of infusing huge amounts of cash into the system to cushion the blow. More, our constitution effectively forbids states to close their borders as many Euro countries have done. The European Central Bank is estimating that eurozone GDP will fall between 5% and 12% in 2020.

Meanwhile the virus continues to spread here in the U.S. even as we begin a limited reopening. In the last two weeks, confirmed COVID-19 infections in the U.S. have gone from 677,472 to well over a million, a 58% increase. Deaths have risen faster from 34,814 to 63,023 as of Friday morning, an 81% increase. Despite this being early in the U.S. pandemic experience, the total deaths have now exceeded the highest recorded number for influenza since official rates have been published. For comparison, there are about 38,000 deaths per year from vehicle accidents. About as many people are dying from COVID every couple of weeks as the total soldiers killed in the 13 years of the Iraq/Afghanistan wars. The good news is that the national daily infection and death rate is no longer rising but may have leveled off, probably because of the social distancing and business shutdowns.

The better news is that the recovery may be in sight. The Atlanta Federal Reserve, Moody's Analytics, and other historically accurate estimating services are predicting a positive number for the third quarter GDP and a substantial recovery to be underway by the fourth. They all warn that a full recovery must wait for an effective vaccine and its widespread distribution.

We expect that 2020 will be a rough year but on the other side, as we enter 2021, there is a very real possibility that the metaphoric sun will emerge and the economy we rebuild will be better and more vibrant than the one we are leaving behind.

Until next week we remain alert and focused on effective portfolio management and your future economic well-being.

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