THE PERSONAL WEALTH COACH®

An SEC Registered Investment Adviser

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TPWC Market and Economic Update – Special Edition

The Markets

The S&P 500 Stock Index (SPX) rose another 1.33% in the first two days of this week to close at 2868.44. It is still down over 11% year-to-date and down over 15% from its top in late February, but up an amazing 28.2% from its bottom of 2237.40 back on March 23. Much has been said and written about this most unusual bear market, presuming it is still technically a "bear", but we can say with confidence that it really is different this time. From the first characterizations on record of a market-selloff as a "bear", such events have had strikingly similar behaviors as have the bull markets that preceded them. The characteristics of this event though have been strikingly different.

Bear markets traditionally start with a slow decay that gradually accelerates into a steady decline and then finally a rout by amateur investors as what the pros call a "capitulation" sets in. This bear started with a rout by the hedge fund and private equity managers that took the market down well over 30%. In the market panic of 2008-2009, it took 250 days for the SPX to fall 30%. This time around it only took 22 days! That initial rout was then quickly followed by a rally as the more conservative professionals and members of the public jumped in and drove the market back up to the levels we see today. Meanwhile the technical analysts and some professionals (mostly the ones who sold out at the beginning) have stood by dumbfounded, waiting for the investing members of the public to surrender their confidence and induce the market collapse that normally marks the end of the bear. The old adage, "Past performance is no guarantee of future returns." may need to be chiseled on the tombstones of more than a few hedge fund managers after this event.

Still the future remains uncertain. Anyone following the data streams will be aware that as the April statistics come out, they will be anything but normal or pleasant. The question hanging in the air on Wall Street is whether the American amateur investor is living in a dream of a quick and easy end to the coronavirus crisis or has finally really grasped the meaning of what it is to be a long-term investor and is looking a couple of years down the road to find the right values to invest toward today. Historically, the consumer confidence indexes were reliable guides to where the market was likely to be going but in 2020 we have seen the fastest collapse of consumer confidence on record since we have been measuring such things, accompanied by what may be the quickest return to a bull market in history. Books will be written about this and we are looking forward to reading them.

As the week began, the U.S. ten-year Treasury note reversed its long, slow slide and rose a bit as it closed Tuesday at a still abysmal 0.663, further steepening the yield curve, suggesting some degree of optimism is returning to the bond markets. The ten-year note has now been stable to slightly positive for a month. If we accept the Treasury yield curve as a strong diagnostic indicator for the U.S. economy, then we could say that the patient is "stable" and showing some signs of improvement. It is important at the same time to note that the yield is still down over 67% from January so we are still in the ICU and being carefully watched, nursed, and receiving transfusions.

West Texas Intermediate (WTI) crude oil rose a spectacular 90.50% over the trailing five market days to close at $25.28. That amazing partial recovery still leaves it up only 4.2% for the trailing 30 days and down nearly 60% from where it was at the beginning of the year but is far from the near-apocalyptic lows it was hitting a week ago. The oil futures market is anticipating $30 per barrel by the end of September. That is not good enough to save the oil patch but is a distinct improvement.

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The Economy

As states gradually start to loosen some of the tight restrictions that have prohibited economic activity, the lagging indications of where the economy was in March and April are starting to come in. There were few surprises, just confirmation that April contained what is probably the worst economic stall to hit the American economy since records have been kept. U.S. factory orders fell 10.3% in March, the greatest single month drop on record. Automobile and light truck orders fell 6.7% and overall orders for durable goods, a strong predictor of future economic activity, were down 14.7%. A more up to date indicator, the Institute for Supply Management (ISM) manufacturing index fell to 41.5 in April from 49.1 in March on a scale where 50 is the balancing point between contraction and expansion. In other words, we went from teetering on the edge between recession and growth to a reading as low as we saw in the worst month of 2009 in a single month. The non-manufacturing index was the real stunner though. The ISM nonmanufacturing index fell 27.5 in April, the lowest number seen since the ISM started its survey in January of 1948. Worse, the purchasing managers index, a leading indicator of economic activity, fell to 36.1. All the indicators to date resulted in a consensus of economists that the second quarter will see a decline in annualized GDP of around 25% in the United States. Last week, the Commerce Department announced that the U.S. economy fell at a 4.8% annualized rate in the first quarter. To translate that into more understandable terms, it appears that economic activity fell about 1.2% in the first quarter and will fall another 5.125% in the second quarter.

We now have a growing set of confirmations that we are already in a severe recession. The question at this point is just how long will it last? There appears to be an agreement among professional economists that we may see a turnaround start in the third quarter as we stop falling economically and at least stabilize, but the initial part of the recovery is not likely to be abrupt or too strong. In China, where the pandemic is largely contained, there are reliable indicators that the economy has only returned to about 57% of its pre-coronavirus level. The best we are likely to see, even in the fourth quarter is about a 70% to 80% recovery, and that may be as good as it gets until we have a widely administered and proven vaccine.

All of that is based on the opening up of the economy to be gradual and with continued social distancing. If we lose control and generate a second wave of the pandemic all bets are off. Historically, the second wave is worse than the first and produces an even larger economic effect. What is different this time is that nations have never practiced social distancing as a means of controlling the spread. It is working so far, so the question is whether we can maintain the discipline. The past is not the future and we have hope that the remarkable discipline that has held this monster down to the levels we have seen will continue to hold. In the short term, the results are in the hands of the American people.

Until Friday, we continue to watch and report and stand ready to receive your queries and comments.

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