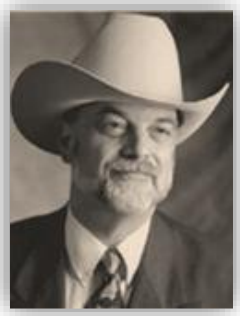

THE PERSONAL WEALTH COACH®

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

May 19, 2020

TPWC Market and Economic Update – Special Edition

The Markets

The S&P 500 Stock Index (SPX) closed today at 2922.94, up 2.07% for the first two days of the week. That leaves the Index down "only" 9.53% year-to-date and down 13.68% from its top in mid-February. It is also up 30.64% from its bottom in late March. There is a long-watched stock market indicator that has a reasonable history of indicating when the market is likely to sag or take off called the 200-day moving average. For some reason, that average of prices over the last 200 trading days, approximately one year, tends to be a trigger for market movement. Historically, bear markets have tended to turn into raging bulls when the SPX crosses the 200-day average going up. Right now, the 200-day moving average for the SPX is about 3,000. At today's market valuation a mere 2.64% rise would put it across the line. There are no guarantees associated with crossing the 200-day moving average, but it is a hopeful sign. If, indeed the Index continues upward and does rise above the average, it will mark another unique event in this most unusual bear market as it crosses the 200-day mark faster than any bear has done before.

The catalyst for the rise in the SPX was the announcement by Moderna, a relatively new company formed in Cambridge, MA back in 2010, that its vaccine for COVID-19 was doing well in stage-1 trials. While this may be the big breakthrough, it is worth noting that Moderna has never developed a successful drug before in its ten-year history. Keep watching but be cautious.

The U.S. Treasury ten-year note yield continued its long, bumpy, slow climb, rising to 0.696%, its highest in a month. With the 90-day T-bill stuck at 0.122%, the yield curve remains solidly positive. The brightest light in the markets was the price of West Texas Intermediate crude oil (WTI) as it climbed to $32.36 per barrel on news that miles traveled on U.S. highways had risen nearly 30% in the last two weeks. The price of WTI has risen an astonishing 257% in the last month but is still down nearly 50% year to date.

The Economy

We have written before and still believe that the end of this crisis will arrive with the effective deployment of a vaccine. The market jumped 2% this week on the first glimmer of hope that it will happen but even the optimists at Moderna warned that their vaccine, if indeed it does well in the stage 2 and stage 3 trials, would not be widely available until late next spring, or about a year from now.

Two more sober estimates came out this week too. Federal Reserve Chairman Jerome Powell warned that the recovery could easily take until the end of 2021 before reaching a level he considered comparable to what we were seeing before the pandemic, even with a vaccine. He added the warning that if we reopen too quickly and trigger a second wave of the virus, the recovery could take longer.

The Congressional Budget Office (CBO) also said the U.S. economy's recovery will likely drag on through 2021. The CBO announcement went on to say that the U.S. GDP is likely to shrink about 5.6% this year and is likely to decline 11.2% in this quarter. A key element in the CBO estimate was that business investment is likely to decrease over 13%. Business investment is what generates longer term economic growth, suggesting that the damage done this year is likely to slow growth in coming years as well. That forecast matches up well with the Treasury bond yields that seem to be predicting a recovery for next year but that it is likely to be muted on the front end. The report went on to say that the economic bad news may get worse before it gets better.

It is wise to remember that the stock market is a leading indicator and despite the less than exciting news about the economy's recovery over the next 18 months, the market appears to be trading based on its expectations for 2022. An example of what is possible was seen in Walmart's earnings report today. Its fiscal quarter ending May 1 saw an increase in same store sales of over 10%, the best growth in more than a decade. A lot of that credit goes to its heavy investment in online sales as well as its rapid response to grocery pickup service. The report suggested that consumers who have started using the internet to shop and then pick up the items at curbside may continue to do so after the pandemic has passed.

Our assessment has not changed. We believe that the return to "normal" in the economic numbers will be sometime in 2022, about 2 ½ years after the pandemic hit us. We also continue to see signs that the survivors of this crisis will be heavily investing in digital and robotic production, resulting in a dramatic rise in productivity and a bright future in years to come.

Until Friday we remain alert and ready to serve.

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

Jacob A. McClure, CIMA®