THE PERSONAL WEALTH COACH®

An SEC Registered Investment Adviser

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TPWC Market and Economic Update

The Markets

At any other time, a host of companies as well as China, the second largest economic entity on the planet, unwilling to give forward guidance on their earnings would create a swoon in the stock market. There is an old Wall Street saw that goes, "The Market hates uncertainty.", but if you weren't already convinced that this time things are different, even possibly unique in market history, the fact that the S&P 500 Stock Index (SPX) closed out the week ending May 22 with a gain of 3.2% at 2955.45 should convince you. A week short of the six-month point for this year, the SPX is only down 8.52% year-to-date and down 12.7% from its high in February. It is also up an astounding 32% from its March bottom as well is being 4.58% ahead of where it was a year ago. The stock market seems to have found its groove and has concluded that the intermediate term damage to the American corporate economy amounts to about 10% and it will likely grow from there.

Anecdotal information suggests that the relatively optimistic state of the stock market is a result of investors being convinced that an effective vaccine will be developed before the end of the year and will be in full production and implementation a year from now. At that point, the reasoning goes, consumers will light off and release a surge of pent up demand, the economy will roar back, and things will be back to almost normal. Whether or not that view is right, the speedy market recovery we have seen in the midst of what could be argued was the most severe blow to the U.S. economy in nearly a century is pleasant.

The yield on the ten-year U.S. Treasury note remained essentially unchanged for the week at an anemic 0.661% but continued to anchor the midpoint of a clearly positive if quite muted yield curve. The signal being sent by the bond market appears to be one of better times in a year or so, but no economic boom anywhere in the foreseeable future. To get the yield that people recently complained about in short term money market funds, one would have to be willing to loan the Treasury their money for at least three decades as the 30-year bond is only paying 1.32% annually. The oil market, as represented by West Texas Intermediate crude (WTI) surged another 13% to close out the week at $33.56 per barrel, an astonishing 95% gain in one month. Despite the outsized gain, WTI remains down over 45% year-to-date.

The Economy

As the first half of 2020 draws to a close the decline in employment, business, and manufacturing continues to grow but at least the slope of the decline appears to be growing less steep. 2.4 million more workers filed for unemployment during the week. That would have been a headline popping number and triggered a stock market selloff any other time but after the 7 million jobless claims per week we saw in March, the week's unemployment numbers were greeted with a sigh of relief. The U.S. now has over 25 million people drawing unemployment checks, a number that cannot be realistically compared with any other time in history since the 1930s.

The IHS Markit Manufacturing Purchasing Managers' Index (PMI), normally a good place to see where the economy is headed, came in at 39.8 for May on a scale where 50 is the dividing line between growth and contraction. A PMI that low is another number that would have normally triggered a panic in the stock market, but this week was greeted with a rise after April's reading of 26.7. The composite PMI that includes services, rose from last month's 13.6 to 30.5 for May. With the new numbers, IHS Markit's chief economist commented, "We therefore expect…a full recovery to take several years." The stock market followed that comment with a further rise. Then, the Senate adjourned without extending the time businesses have to spend the Paycheck Protection loans or considering further economic assistance programs, but was ignored by the markets. The markets seem to have concluded that the Senate will act to send more money after some posturing.

The general mood is things may still be getting worse, but they are getting worse less fast than they were. Frankly, while we appreciate the improving mood of the markets and in the economy, we recommend caution. Pandemics historically have had a second surge as the first one appears to have slowed. That doesn't change our belief that things will be much better a year from now and in a couple of years we will likely be in the early stages of an economic boom as great or greater than any we have seen in our nation's history. Still, the road between here and that boom is probably going to have some potholes and drop-offs that could be shocking if we are not prepared for them.

We hope you had a happy and safe Memorial Day, remembering what the day celebrates. We, meanwhile, remain alert and in hot pursuit of better ways to invest and be prepared for the future.

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