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THE PERSONAL WEALTH COACH®

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May 26, 2020

TPWC Market and Economic Update – Special Edition

The Markets

Because the markets were closed on Monday for Memorial Day, today's market report is for one day only, but that is all right because the S&P 500 Stock Index rose 1.23% to close at 2991.77, inching a bit closer to the 3000 mark. It was up well above 3000 midday, but news that the President is considering sanctions against China's leaders, soured the mood and it dropped back. Still, considering the Index is only up 1.28% for the trailing five market days, literally all of that rise was today. It is probably not a coincidence that the New York Stock Exchange's famous trading floor opened up today after being closed for over two months. The surge in value followed reports that retail, travel, and lodging firms are seeing business start to resume as the lockdowns were ending in many states across the country. The SPX is now down 7.4% year-to-date, 11.65% from the market high on February 18 and up 33.73% from its bottom on March 23. Pleasingly, it is also now up 5.86% from a year ago. We are again within striking distance of the 3000 mark which is about the 200-day moving average. Historically, if the Index closes for two weeks above the 200-day moving average it has marked the end of a bear market.

The U.S. Treasury 10-year note yield joined the stock market in a small burst of optimism, rising almost ten basis points to yield 0.709%, further steepening the Treasury yield curve and suggesting better times ahead. West Texas Intermediate crude oil (WTI), after being the odd market out and not closing for Memorial Day, appeared to not want to be left out and rose 1.49% to end the day at $34.08.

The Economy

The word on the Street is that the worst of this economic slump may be over. If so, then the forecast by Moody's that the economy would bottom on or about Memorial Day is eerily correct. The highways are starting to fill, and the number of trucks on I-35 seemed to double almost overnight. April was a month of business failures and the steepest drop in business activity since such things have been measured. As we approach the end of May, it appears that things are no longer getting worse and, at a minimum, appear to have leveled off nationally. In the states least hit by the coronavirus pandemic it looks more and more like things are picking up.

Still, things are not that good. Open Table is reporting that restaurant seating is now "only" down about 65% in Texas, Alabama, and South Carolina from where it was in early March. The problem now seems to be at least as much from people's reluctance to be exposed to the virus as any government restrictions. Google Mobility reports that driven miles for commuting and recreation are still down between 30% and 40%. There are still more than 25 million Americans drawing unemployment benefits and as the Payroll Protection Programs runs out, it appears that there are millions more about to lose their jobs.

The economy is likely to be slow in recovering because in areas where Covid-19 hit hard, the reality that the diagnosed cases are still growing at about 1% per day while the death rate among those diagnosed remains stuck at about 6% is causing an understandable reluctance to return to normal. The open question is whether or not the recent opening up and surge in gatherings of people will start a second wave of infection as it has done with other pandemics. If it does, the evidence will start to show in about two to four weeks given the incubation period for the virus and the lag in reporting times. This pandemic is a bit like being in a hurricane. The wind is dropping off, but we don't know if that means the eye is passing over and we will soon be hit again, or we are nearing the end of the storm. It is only after the storm passes that we will know what damage has been done.

We continue to advise taking great care. There are daily opinion pieces we read comparing this pandemic with the influenza pandemic of 1968-72. Although we have written this before, it is good to recognize although that Hong Kong flu killed about 100,000 Americans, it took four years to do so. As of today, this pandemic has killed almost that many in three months. There remains a very real threat out there.

In another odd set of statistics generated in this crisis, existing home sales in the United States fell 8.5% in March but the average price of those that sold was up between 4.4% and 5.9% from a year earlier. Historically, falling sales generate lower prices and when combined with a recent rise in mortgage rates and banks tightening lending standards, rising prices are a clear anomaly. Then, previously owned home sales plunged 17.8% in April and the median price rose another 7.4% from a year earlier.

Another impressive statistic is the American savings rate. In 2007 the personal savings rate of Americans was 3.6% but rose following the "great recession" to around 6.7%. In 2019 the rate was 7.6% but in early March 2020 the savings rate has officially jumped to over 13% and has been estimated to have risen to around 20% in April. The question here is what will Americans do with their suddenly increased savings? Once the crisis is over, if they are comfortable spending at least some of it, we will see a surge in business and a quick rebound, but if having lived through two economic shocks in a decade, decide to just leave their money parked, the recovery will be slow.

We tend to think they will keep a relatively high savings position, which is prudent, but once a vaccine is deployed and the number of new cases diagnosed drops to near zero, Americans will start to spend again and all the pent up demand for everything from new cars to restaurant meals will lead the economy into some exceptionally good times.

Until Friday, stay safe, enjoy being alive, and know we are on duty for you!

Your obedient advisors,

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