THE PERSONAL WEALTH COACH®

An SEC Registered Investment Adviser

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TPWC Market and Economic Update

The Markets

The stock market, represented by the S&P 500 Stock Index (SPX) got excited, even a bit exuberant about the Friday jobs report and leaped like a deer headed up a mountain to close out the week at 3193.93, up an astonishing 4.91% from last week's close. The week's close is down a mere 1.14% year to date, and only 5.68% from its high in February. The rise from its bottom in March remains stunning to our minds; up 42.75% in about two and a half months! The market driving news was that unemployment in the United States is "only" 13.5%. Prior to today, had anyone said in the nearly four decades we have been closely observing the markets that a 13.5% unemployment report would cause a nearly 5% positive move in the stock market, we would have quickly concluded that the speaker was either insane or inebriated. The SPX is now up 11.16% from this time last year.

It is hard to understand how the market could be up so much as we churn through a quarter that looks more and more like it will be the one that reports the greatest GDP contraction since the 1930s and are experiencing a distressing social upheaval. Looking deeper into the market, it becomes apparent that there are companies that are clear winners and are up sometimes triple digit percentages while there are others that are still trying to find bottom. The winners have some big bets riding on them and as they rise, the money comes pouring in. They are relatively few in number but have come to dominate the SPX. It reminds us of the high concentration in large growth stocks we saw in late 2000 but this time there is a rationale behind the high prices; those are the companies that are appearing to thrive in the midst of a pandemic and social strife and show signs of doing even better on the other side.

Although the numbers were small, the percentage gain in yield on the ten-year U.S. Treasury note was even more astounding. The T-note yield rose a whopping 39.2% to end the week's trading at 0.902%, up 24/100 from last Friday's 0.648%. That rise in yield steepened the Treasury yield curve to one of its more pronounced positive slopes in decades. Even the previously seriously depressed yield on the 30-year Treasury bond soared to 1.64%. The rises in rates is good news for the bond market's prediction of where the economy may be in a year or two, but also increases the longer-term borrowing costs for the Treasury to a level that roughly equals long-term inflation expectations. In short, the end of free money for the Treasury may be nearer than many thought. Not to be left out of the celebration, West Texas Intermediate crude oil (WTI) apparently found room to swig a few more barrels and surged to $38.97 as of 5:00 PM Eastern Time, a five day rise of 10.33%.

The Economy

The market shaking news for the week was that the official unemployment rate fell to a mere 13.3%, down from 14.7% in May, one of the highest percentages since the Great Depression, but still much lower than the expected rate of 19.5%. More, employment actually grew by 2% from last month. If indeed the bottom was hit in the last 30 days as the jobs data suggests, this was both the most severe and shortest economic contraction since the 1930s. 19.6 million Americans remain unemployed but the good news is that the majority of those unemployed workers are reporting they are temporarily furloughed rather than laid off. They fully hope and expect to be rehired at some point. The numbers may be misleading though. If we count in those who were employed and have dropped out of the job market because of illness or need to take care of family members or fear of going back to work and becoming ill, the unemployment rate jumps to 19.2%. This is still a very fluid situation, but we at least see some evidence that we have turned the corner.

Let us not forget that we still have a pandemic underway. The good news and improved outlook are based on the assumption that the infection rate will not accelerate again and that is an unknown factor. We also do not know what structural damage to the economy will be revealed as things get rolling again.

The U.S. trade deficit rose 16.7% in May as imports fell 13.7% but exports fell a depressing 20.5%, the largest declines since records have been kept on those numbers. While specific numbers were not being tracked in the early 1930s, this drop seems to be about the same, but has occurred much faster. A big factor in the export decline appears to have been the shutdown of U.S. automobile factories as COVID-19 was discovered to be spreading on the factory floor. As the factories restart, expect to see imports rise first as parts are needed to get manufacturing started. If all goes well and we do not see a second surge of the virus, exports should follow a month or so behind.

We may have hit bottom or there may be a second bottom ahead, but it does appear we are turning the corner to better times, presuming we keep our guard up and remember that the virus is still out there and the vast, vast majority of us have no defense other than to avoid infection.

Until next week we remain alert, on guard, and working hard at managing for a better future.

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