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

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TPWC Market and Economic Update – Special Edition

The Markets

The now ten-week rally in the S&P 500 Stock Index (SPX) continued, with the Index up another 0.41% since our last missive to 3207.18, although it actually declined 0.78% today. For one day, yesterday, it climbed above its year-to-date opening, putting it in positive territory for the year before sinking back below zero today. It closed up 4.30% for the trailing five days it was down 0.73%, down 5.29% from its top in February, but up 43.34% from its bottom in March. More importantly for longer term investors, the SPX is up 11.34% from this time last year.

A critical element in understanding this most unusual of bull markets is that about five, large-cap growth stocks now make up about 20% of the SPX and about twenty of the 500 stocks in the Index account for most of its growth in the past couple of months. A large percentage of the stocks in the Index are still down quite a lot but ironically, the more a stock price declines the less it counts in the average for the SPX while the more a stock rises the greater its weight in the average. The same is true in the Dow Jones Industrial Average. Only time will tell if the rise by the top tech stocks that are fueling the SPX recovery is prophetic or in error.

The U.S. 10-Year Treasury note ended trading today at 0.829%, down from Friday's 0.902% but still up a respectable 20% from where it was five trading days ago. The yield curve remains solidly positive and historically steep despite the abysmally low rates with the small dip in the 2-year yield now gone. West Texas Intermediate crude oil (WTI) popped just above $40 per barrel on the seventh, dipped a bit yesterday before bucking the trend and rising today to close at $39.39 today, up 1% since Friday and up 4.12% for the trailing five days.

All in all, in the midst of a churning rush of confusing data, the markets continue to forecast a rising economic tide a year or so from now.

The Economy

We wrote on Friday that the jobs report estimating a 13.5% unemployment rate for May was possibly considerably less accurate than was its norm, and today's market sag reflected that growing understanding. By any reasonable common-sense analysis, about 20% of previously working Americans are currently unemployed. That profoundly unpleasant number was offset a bit by a surprise data point that indicated about 2.5 million more people had been hired than laid off last week. Anecdotal information now strongly indicates that the rehiring was indeed a response to the offer to forgive the Paycheck Protection federally guaranteed loans if the majority of the funds were spent on wages.

You may remember that the Harvard Endowment achieved almost legendary levels of stability and high returns about ten years ago, mostly through investing in "alternative investments." More evidence emerged this week that those returns were more illusory than legendary. Harvard is asking faculty and staff to take early retirements, forgo bonuses, and take pay cuts as it announced a $1.2 billion funding shortfall. It turns out that the "alts" as they are known in the investment world, had astonishingly less value when an attempt was made to actually sell them! In other words, the non-traded investments looked great on statements but were worth a lot less when Harvard actually needed spendable cash.

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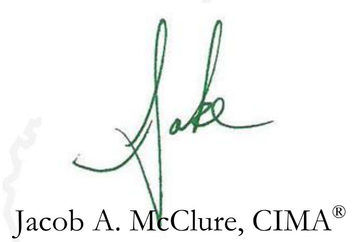
The National Bureau of Economic Research (NBER), the official arbitrator of recessions, normally announces that a recession has officially started about six or more months after the beginning of one. This time around they are willing to move a bit faster than usual, which is not too surprising given the severity of the downturn, and officially declared that a recession started in February. The NBER also remarked that the recession may not only be the most severe since the 1930s, but also one of the shortest and may end with the second quarter of this year.

The U.S. money supply (M2) has expanded 47.2% in the last 13 weeks. Prior to this event, the record expansion in a single year was 13.5%. Milton Friedman's Monetary Theory states that depressions are caused by a shortage of money in an economic system and that had the Federal Reserve and Congress pumped money at an accelerated rate into the U.S. economy following the stock market crash of 1929 we would have had, at worst, a short but severe recession followed by a relatively quick recovery. Instead both the Fed and Congress choked off money, choosing instead to fight non-existent inflation and to minimize deficits. So far, the markets and the general economy appear to be validating Friedman, but this remains the biggest economic experiment in U.S. history.

The key to recovery appears to be three-fold. First, both the Congress and the Federal Reserve must continue to infuse funds into the economy until the prime source of the economic illness is corrected, the coronavirus pandemic itself. Second, we must find an effective vaccine and deploy it as well as find and deploy an effective treatment for those who contract the disease. Third, and most practical, we as a population, must continue to social distance and take appropriate preventative measures to keep the pandemic from resurging and overwhelming our medical system.

Since this is a special Coronavirus Letter, it is appropriate to mention that the infection rate in both Texas and Bell County continues to grow. Since the lockdown ended in Texas, the seven-day moving average has nearly doubled from around 1,000 new cases per day to the current 1,800. Bell County's share in that has also accelerated. It remains important to recognize that none of us who have not had the virus are immune and the death rate for those confirmed infected over 65 years old is quite significant. This is not a sprint; it is a marathon. The results are up to us.

Until Friday, we remain on duty, alert and aware.



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

Jacob A. McClure, CIMA®

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