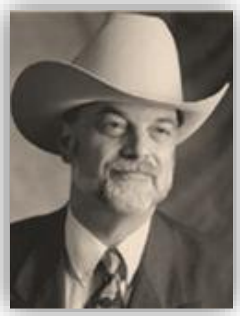

THE PERSONAL WEALTH COACH®

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TPWC Market and Economic Update

The Markets

Our old friend the S&P 500 stock index (SPX) was quite stable through Wednesday but then Thursday came and the news was out that hospitalizations for COVID-19 were up 42% since Memorial Day in Texas. That spooked the markets with the S&P 500 dropping 5.9% on Thursday, the biggest single day drop since March. It partly retraced some of that loss by rising 1.3% on Friday to close at 3041.31, down 4.78% for the week. That leaves the SPX down 5.86% year to date, and down 10.18% from its top last February. Still, it remains up 35.93% from the bottom in late March. The result of this week's market activity looks to us like a good reflection of reality as we can see it right now. In 19 states coronavirus cases and hospitalizations appear to be rising. There is a legitimate fear that we will see a second wave of the pandemic and it will hit primarily in those states that avoided the first one.

The U.S. 10–year treasury note yields grew a bit more pessimistic as they trended lower through Thursday then rose just a bit on Friday to end the week at 0.706%, down 21% from last week. The yield curve though, remained solidly positive, forecasting better times next year. West Texas Intermediate crude oil (WTI) joined in the cautionary mood, dropping 6.31% tp close out the week at $36.50. While today's price is certainly better than it has been in the recent past, it is still down over 40% year to date.

The Economy

Daily COVID–19 hospitalizations in Texas averaged 1,515 through April, rose to 1,672 in May, but rose to over 2,000 so far in June. It is not that Texas cannot handle 2,000 COVID–19 hospitalizations; it is the 42% rise in the numbers that spooked the markets. Arizona, Utah, and 16 other states also are reporting accelerating rises in COVID–19 infections. As we have written before, a reasonably fast economic recovery is dependent upon several things. First, Congress and the Federal Reserve need to continue to infuse money into the economy until it returns to health. Second, we must avoid having a second wave of coronavirus infections. Anecdotal information suggests that as we come off lockdown a lot of people are acting like there is no longer any danger. This week the markets noticed that.

We had another case of not so bad news looking like good news this week. 1.5 million people filed initial unemployment claims during the week. Any other time that many initial unemployment claims would panic the market but compared with the 7 million in the week ending March 28, 1.5 million doesn't look half bad. The number of Americans drawing on unemployment benefits also declined to 20.9 million, again an astonishingly large number just not quite as bad as it used to be. To give this some perspective, before the pandemic the record high for continuing claims was 6.6 million in 2009.

In yet another not so bad news report, the University of Michigan consumer sentiment survey rose to 78.9 as of June 10 from a reading of 72 last month. To give that number some perspective, at the beginning of the year the index was reading 101. Buried in the survey though was some unsettling information. Nearly half of consumers said they expected another downturn caused by a coronavirus resurgence to occur this year.

This week, the National Bureau of Economic Research (NBER) announced officially that a recession had started in February. On Friday Moody's Analytics opined that the recession had ended in early June. Moody's did qualify their

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opinion by saying that the nascent recovery they believe started in early June could be killed by the same two things we are concerned about; a resurgence of the coronavirus or the failure of Congress to pass more stimulus.

A survey by the Wall Street Journal of US economists found that about two thirds of them believe that here in the second quarter we will see the worst of the economic slump and in the third quarter we will begin to see a recovery. Unfortunately, they also expect that unemployment will still be around 9.6% in December of this year. The Federal Reserve chimed in and in the words of Chairman Powell, "We have not yet begun to think about thinking about raising interest rates." indicating that the Fed was still willing to support the economy and would be for some time.

In summary, it appears the economy may have hit bottom early this month or the end of last month. While technically a recession ends when the economy hits bottom, it is no more the end of the bad news than a coastal town would see just after the hurricane had passed. We have a lot of rebuilding to do and the storm may not yet be over, but there is hope. We continue to agree with the Federal Reserve that it will take about two and half years from the onset of this pandemic for us to see anything like a return to normal.

Until next week we remain ready to serve you and answer any questions you may have. Stay safe, stay optimistic, and hang in there!

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