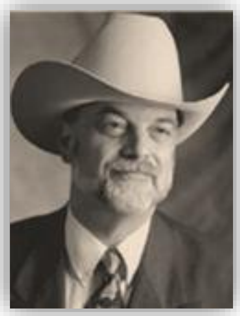

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TPWC Market and Economic Update

The Markets

The S&P 500 stock index (SPX) turned in a reasonable week, closing Friday at 3097.74, up 1.86%. That leaves the SPX down 3.85% year-to-date, and down 8.52% from its high in February. It is up 38.45% from its low in March. It is also up 4.99% from where it was this time last year. The Index seems to have entered a zone where it rises and falls a bit but seems to be comfortable above 3000 and below 3200. If we take those numbers as the consensus of investors, it appears to say that the coronavirus pandemic is expected to shave about 10% off corporate earnings a year from now. The numbers also seem to suggest that the recovery surge we have seen since the end of March is largely over. Now we wait and see if the market is correct in its predictions.

The 10-year U.S. treasury note yield fell to 0.695%. It, like the stock market, seems to have entered a narrow zone between about 0.675% and 0.750% in its estimate of what interest rates will be at the 10-year mark over the next year or so. West Texas Intermediate crude oil (WTI) crept upward all week to close at $39.57 per barrel. It too seems to have entered a trading range, moving between about $34 per barrel and just under $40 per barrel. WTI remains down about 30% from where it was a year ago and at the beginning of the year, a strong indication of lower demand globally.

The Economy

The United States added about 2.5 million jobs in May from April. In other times that would be news we can get excited about and the headlines look good, but the reality is not so pleasant. That 2.5 million jobs is pretty small change seen in light of the fact that the United States economy has lost 20 to 30 million jobs since February. The number of workers receiving unemployment benefits has stabilized at around 20.5 million. New applications for unemployment benefits last week totaled 1.5 million, which works out to be good news because it is a stable number. The dark side to that number is that people are still being laid off at a rate about eight times that which we saw before the pandemic. Overall, it appears that about 10% of the people laid off because of the coronavirus pandemic have been rehired. That is good but it is a long way from a recovery.

In another glimmer of good news, industrial production rose 1.4% in May, the first uptick since February, after dropping a cumulative 20% in March and April. Again, this is an indication that the economy probably hit bottom sometime in May, but it has a long, long way to go before we see anything like normal again. In addition to the simple issue that people are not buying, manufacturers and retailers have a huge backlog of inventory that will have to be unloaded before new industrial orders pick up. Retail sales may have surged by 7.9% in May, but we will have to wait and see if that is sustainable. Retail remains nearly 8% below the pre-COVID level.

Speaking of the coronavirus pandemic, it is very much still growing. Nationally, we are still seeing about a 1.28% increase in diagnosed infections per day, well down from the 3.75% per day rate we were seeing at the end of April, but still a fast growth rate. Here in Bell county, our reported infection growth rate is about 3.7% per day, about where it was early in the event nationally. More critically, since the end of May we have gone from three deaths to ten in the county. Those numbers are still small, but the compound growth rate is something we should pay attention to. The current growth rate in the county would double the number of infections and deaths about every twenty days. Presuming that occurs, by the end of July, the deaths would have risen to 40 and the diagnosed infections to nearly 3,000. More, this type of growth seems to be occurring across the southern tier of states that largely missed the early impact. If this infection growth rate continues, even with the governmental restrictions relaxed, we can expect to see a reduction in retail activity as people self-isolate.

We continue to believe the economic confusion and high levels of uncertainty will continue until we have an effective treatment and vaccine and they are widely used. The major threats at this point are a second wave of the pandemic, which history would suggest might come in the fall, or that further fiscal stimulus is blocked in Congress. The economy seems to have stabilized, but it is still in intensive care and in need of support. Our estimate is that a significant degree of recovery will arrive in about a year as vaccinations are effective but full recovery will take about another two years. Business failures are not over, and it will take years for many of those who lost their jobs this year to find new employment. We also continue to believe that the end of this crisis will mark the beginning of one of the greater economic booms in our country's history. Now is when the hard part starts as we must have patience to wait this out.

Until next week, we remain on duty, aware, and alert in a sincere attempt to provide you the best long-term results.

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