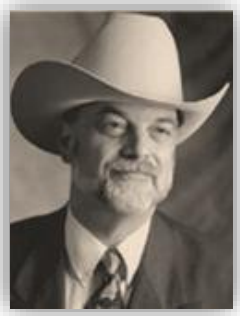

THE PERSONAL WEALTH COACH®

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TPWC Market and Economic Update

The Markets

The stock market hates uncertainty, particularly when the risk of bad news rises, and it got a dose of that out of Texas beginning on Wednesday. The S&P 500 Stock Index (SPX) fell 2.86% for the week to close at 3009.05, down 6.86% year-to-date, -11.14% from its top in February but still up 34.49% from its March bottom and 2.29% from last year at this time. The proximate cause of its retreat to the bottom of its recent trading range was the surge in COVID-19 cases in Texas and to a lesser degree, in Florida. Cases diagnosed can be affected by increased testing, and that may be the case in Florida, but in Texas the surge in confirmed infections is matched by an equally compounding number of hospitalizations and filled ICU beds. Hospitalizations are the gold standard for this disease, and they are setting new records.

The U.S. 10-year Treasury note yield followed the SPX down 6.9% to 0.647%, dropping to a low point not seen since mid-May. Despite the slide, the Treasury yield curve remains positive, stubbornly forecasting better times to come in 2021. West Texas Intermediate crude oil (WTI) fell 3.5% for the week to $38.19.

The Economy

The finely-honed economic data that we normally rely on to tell us where we were a month or so ago has long sufficed to give us a series of dot-points from which we can usually chart the course ahead, but not in this crisis. In an economy where over 2/3 of our GDP depends on consumer spending, the personal consumption report is a vital sign that rarely changes much from month to month, and at this point notably is published about a month after the fact. The Commerce Department announced on Friday that the amount Americans spent on goods and services in the month of May rose a record-breaking 8.2%. That sounds positively euphoric until one realizes that before rising that much, it had first fallen 20% in the previous three months, leaving personal consumption still down 12%. More, that surge in spending coincided with the $1,200 per person plus $500 per dependent stimulus checks. All things considered; it is unlikely that bump up in consumption will be sustainable but only time will tell. Meanwhile, though economically we may have hit bottom and be in a nascent recovery, about 1.5 million jobs are being lost each week, and that is net of hiring.

In another bit of good news that likely is sustainable, the Federal Reserve's bank stress tests found that even in a worst-case scenario, the largest American banks are in good shape to weather the storm. It went on to halt any dividend increases or increased share buyback actions by banks for the rest of the year, instructing financial institutions to build up their reserves against a second infection wave in the fall with an attendant second lockdown. Americans are already heeding that Fed directive as the Bureau of Economic Analysis reported that the U.S. personal savings rate for May was 23.2% even as personal disposable income fell 4.9% and expenditures rose. This is a most peculiar economy. The data matches up well with studies that confirm it was primarily hedge funds and privately managed accounts that led the panicked stock market collapse in February and March while the average retail investor kept calm and did not run from a falling market.

On Thursday, June 25, the U.S. reported a single day new high in diagnosed COVID-19 cases at nearly 40,000 and worse, has now clearly returned to a compounding increase in infections nearly as steep as it was in the worst days of the pandemic spread. Almost 6,000 of those new cases on Thursday were in Texas. In the United States about

125,000 people have died from the disease. The surge in COVID cases in Texas is bad. In Houston the number of hospitalized COVID patients is 47% higher than a week ago and health officials are warning that Harris County could run out of ICU beds in ten days. Tracing has revealed that many Texans are just not taking the threat seriously. Most are not wearing masks and are attending parties and other gatherings where the virus is being spread. Lest we forget, the coronavirus is still among us and, at least in Bell County is still expanding at about 6.6% per day and the deaths with it. The number of deaths here in Bell County have doubled in about ten days.

This crisis is not over. Many Americans get this but unfortunately more than a few appear to not. As we have written before, a relatively smooth economic recovery is dependent on three things. First the Federal Reserve must remain supportive of the economy, and it has committed to do so. Second, Congress must renew the fiscal support and stimulus funding that is to run out next month. Third, we the people must behave responsibly and slow the spread of the virus. Unfortunately, the last two are in question at this point. Senate Republicans are expressing doubt that further stimulus is needed and, based on what we have seen in Texas so far, many folks are aiding and abetting the pandemic's spread.

None of this changes our opinion that in a year or so, this unpleasantness will be well on the way to being history and we will find ourselves in the opening stages of one of the biggest economic booms in our history. What happens between now and then is in our collective hands.

Until next week we remain on guard, aware, and utterly fascinated at what is going on in the markets and economy but always doing our best to act in your best interests as the managers of your portfolios.

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