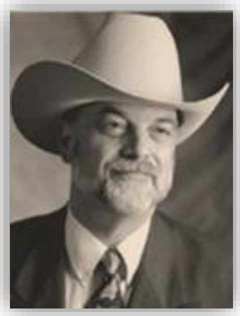

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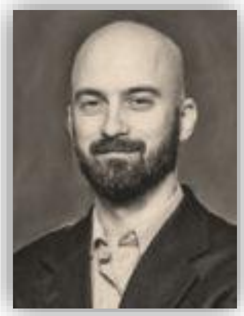

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TPWC Market and Economic Update

The Markets

The S&P 500 Stock Index ended the shortened July 4th week at 3130.01, up a delightful 4.02% from last Friday's close following the jobs report, but still within the trading range it has occupied since the end of May. It is now down 2.85% year-to-date and down 7.56% from its top in February but up very nearly 40% from its March bottom. The SPX is up about 4.5% from last year at this time. The 10-year U.S. Treasury note yield agreed with the stock market and rose about 4% to 0.673% while West Texas Intermediate crude oil (WTI) rose about 5% to $40.32 at the end of the U.S. business day.

The Economy

The Labor Department came out with news that was greeted almost universally with delight as the official estimate of unemployment in the U.S. dropped to "only" 11.1% as of mid-June, and total nonfarm payroll employment rose 4.8 million. Unfortunately, that figure still leaves at least 17.8 million Americans who want to work unable to find a job, and ongoing weekly layoffs of about 1.5 million. The new unemployment rate is three times the figure we had in February yet may have missed the reality of June's jobs. The Covid-19 infection rate has soared since the survey was taken and states, including Texas, California, Arizona, and Florida have imposed new business restrictions since, creating layoffs that were not captured in the report.

General business activity indeed increased until about mid-June but all indicators of that activity, things like automobile movement in shopping areas, credit card usage at businesses, and reserved dining seats peaked at mid-month and then stared to again decline. The decline in business activity almost perfectly mirrors the rise in new coronavirus cases both in time and locale. As unpleasant as that news is, it may be needed. The surge in new infections to a level about equal to that seen in New York in the early stages of the infection itself was a lagging but near perfect mirror of the resurgence of visits to restaurants and bars as the states opened back up.

Texas provides a clear indicator of what is happening. In mid-June about 2,200 Texans were hospitalized for Covid-19, but two weeks later, as July arrived, the number was up to 7,000, as hospitalizations more than tripled. At the rate of hospitalization growth we have seen in the last two weeks of June, both the Houston and Dallas-Fort Worth area hospitals will be full by mid-July with the Austin area running not far behind. Some hospitals in Houston are already reporting being out of beds and are transferring or turning away patients. Texas reported nearly 8,000 new cases on July 2, a new record. Bell County reported 128 new cases on June 30, a huge increase from mid-June when new cases were averaging around 21 per day. The growth in absolute numbers is stark, but the growth rate per day in Bell County has remained fairly constant at about 4%. A 4% growth rate doubles the total number of infections about every 18 days. That is the scary reality of this forest-fire pandemic. Notably, about 82% of the new infections are in younger people who may be feeling invulnerable but are, as a result, spreading the uncontrolled growth of the pandemic fire. With about 5% of the world's population, the U.S. now has recorded about 25% of the known coronavirus cases.

In separate news, the major oil and gas companies across the globe are restating the value of their oil reserves. Royal Dutch Shell devalued reserves by $22 billion while BP took a $17.5 billion cut. As the year began, oil reserves were assigned a long-term value of $75 to $90 per barrel even as Chevron announced an $11 billion write down. Shell now projects a 2023 value of $60 per barrel. The good news is that gasoline and diesel will likely remain relatively inexpensive. The bad news is that a lot of the Texas economy is based on relatively high-priced oil. The generally accepted rationale has little to do with the pandemic. Rather, the ongoing investment in and conversion to electric-powered automobiles and renewable energy combined with the relative abundance of newly accessible oil is having an effect and is likely to continue to do so into the future.

Home sales are sending a very mixed signal. The National Association of Realtors reported a 9.7% drop in existing home sales for May, while the Census Bureau announced a 17% increase in new home sales for the same period. Pending home sales jumped a record 44.3% for May but remain over 5% below last year at this time. Like most of the other economic indicators, this report is over a month old and in the current, rapidly shifting environment, should be taken with a grain of salt.

Things do look to be potentially bumpy in the next few months unless we, as a population, take this pandemic far more seriously than we have so far. That potentially rough near future in no way detracts from our optimism for the economy once we emerge from this threat. Record cash on hand levels for American households and investors, we believe, will translate into an impressive economic boom on the other side. Good progress is being made on vaccines that should end this nightmare and full implementation of that solution about a year from now looks like a good probability.

Until next week, mask and be safe for the weekend as we observe, analyze, and optimize for better times to come.

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