THE PERSONAL WEALTH COACH®

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July 7, 2020

TPWC Market and Economic Update – Special Edition

The Markets

The S&P 500 Stock Index (SPX) turned in a very respectable rise of half a percent since Friday and 1.45% for the trailing five days to close at 3145.32 despite losing over 1% today. That leaves the SPX down about 2.65% year to date as well as down over 7% from its top in February, but up over 40% from its bottom in March. The Index is up 5.56% from this time last year.

It is good to temper those numbers with another observation. The S&P 500 Value Index is down 14.41% year to date and down 4.66% from a year ago. The other side of the SPX, the S&P 500 Growth Index is up a whopping 10.95% year-to-date and up nearly 18% from one year ago. This unusually large spread between stock prices on the underlying values of the companies and stocks priced on hoped-for earnings in the future is one of the larger splits between the two sides of the stock market in decades. The last time the difference between growth and value was this large was in the late 1990s in the midst of the dot-com boom. Historically, over the long-term, value stocks have tended to outperform growth stocks, but in the short-term, growth stocks have from time to time raced off to soaring heights as they did in the late 1990s. This is one of those times and for value investors, it requires a great deal of patience and perseverance to wait for the "irrational exuberance" that accompanies growth stock surges to work itself out. Unfortunately, when growth stocks soar as high as they are doing now, historically it has not ended well. We remain committed to value investing and fully intend to hold our course.

The yield on the benchmark ten-year U.S. Treasury note fell just a bit to 0.646%, remaining at astonishingly low levels; however, the Treasury yield curve remains solidly positive, suggesting a better economy in a year or so. West Texas Intermediate crude oil (WTI) crept up about 1.7% from last Tuesday to $40.49.

The Economy

There was some good news on the Labor front as layoffs for the month of May were announced by the Labor Departments as having declined to about the same level as before the coronavirus shutdown. Background to that is the fact that in March 11.5 million layoffs occurred followed by 7.7 million in April, so the 1.8 million official layoffs in May sounds downright euphoric. It was another case of things may not be getting a lot better, but they are clearly getting less worse. More less-bad news came from the monthly jobs report in that employers hired about 7.5 million workers total in the months of May and June, giving about a one-third offset to the 22.2 million total job losses in March and April. The open question is how long the hiring will continue as job openings are down about 23% from where they were early in the year.

Those labor numbers reflect what appears to be happening across the economy. The collapse in business activity, revenues, and profits was staggering in the first quarter and all estimates suggest when the second quarter, which ended in June, numbers are tabulated, they will be worse. There is also a general consensus that sometime around the end of May we hit bottom and have started a recovery. Unfortunately, it also looks like that recovery is being muted not by governmental restrictions but by a growing awareness that the spread of the disease is accelerating in the heartland.

The pandemic pain is not limited to the U.S. The Organization for Economic Cooperation and Development (OECD), composed of the economically developed countries across the world said the global unemployment level will likely end the year higher than at any point since the Great Depression of the 1930s. It also forecast an unemployment rate of between around 11.3% at the end of 2020 in the U.S. if there is no second wave and associated business lockdowns. It expects the best-case unemployment in the U.S. to decline to around 7.7% by the end of 2021.

In a final bit of less-bad news, IHS Markit's Index of Service Activity, a measure of how the service side of our economy is likely to do in the near future, rose to 47.9 in June, up from 37.5 in May. Any reading below 50 is still contraction, but it appears the services side is close to leveling off and no longer in free fall.

Meanwhile, Covid-19 continues to grow at about 4% per day in Central Texas and about 2% per day across the entire nation. Late today the data emerged that daily new Covid-19 cases in Texas topped 10,000 for the first time, rising by 5% as sixty new deaths were reported. Metropolitan hospitals are activating surge facilities in convention centers and indoor arenas. We are a long way from being out of the woods.

The bottom line is that economically the nation is doing less bad and showing signs of a potential recovery. There is a growing consensus in Congress that more stimulus will be needed, and we agree. The final issue is how well we deal with the spread of the disease by our behavior. In that area we seem to be improving but our travels locally suggest that there are a lot of people who still somehow consider themselves exempt from the need to distance and mask. Only time will tell how that works out. Our view of the longer-term is reflected in the bond market. A year or so from now we are likely to, as a nation, be emerging from the pall of this pandemic in the U.S. Unfortunately, it is likely to take the global economy longer to recover and there will be serious structural damage here as we continue to be the epicenter of new infections.

Until Friday, we remain on watch and working hard to keep abreast of the situation.

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