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THE PERSONAL WEALTH COACH®

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TPWC Market and Economic Update

The Markets

The S&P 500 Stock Index (SPX) closed out the week at 3185.04, up 1.76%, near the top of the trading range it has maintained since the end of May. It is now down 1.42% for the year to date, down about 6% from its top in February and up 42.35% from its bottom in March. The spread between the S&P 500 growth and value indexes remains the highest it has been since the late 1990s with the growth index soaring ahead while the value index is still trying to recover from the Covid-19 crash. Growth stocks are priced based on investors' expectations of higher earnings in the future while value stocks are priced based on the underlying value of the assets and current profits of the company.

The ten-year U.S. Treasury note yield decided to not join in the party and declined 1.27% for the week to close at 0.644%, down 29% over the last month and nearly 70% for one year. The Treasury yield curve remains quite low but still with a distinctly positive curve, continuing to forecast better if not a soaring economy a year or so from now. It contrasts strongly with the decidedly inverted but much higher yield curve we saw last year at this time. West Texas Intermediate crude oil (WTI) rose 0.82% for the week to $40.61 seeming to have found a comfortable price at about the $40 level since the end of May.

The Economy

Most of the economic news this week is either directly about the Covid-19 pandemic or related to it. The United States has now identified 3,163,505 cases of the disease, now rising at over 60,000 per day, and reported about 134,000 deaths. Deaths in Texas rose above 3,000 as the case rate continued to accelerate with over 10,000 new confirmed cases per day. To put that in perspective, at the end of May, Texas was reporting about 1,000 new cases per day. While the number of new reported cases can be skewed by increased testing, the immutable standard for how bad the infection is hitting us is in hospitalizations. According to the Texas Department of State Health Services, on June 1, Texas had 1,756 hospitalized Covid-19 patients. By June 21, three weeks later, that number had risen to 3,409. Three weeks further along, on July 8, the hospitalizations stood at 9,689. The number of people in Texas with severe, confirmed cases of the disease is tripling about every three weeks. The same or worse is happening in Florida, California, Arizona, and across the southern tier of states. The same growth rate, albeit with smaller numeric totals, is happening in Bell County with new cases rising at about 4% per day.

Why are those disease numbers important in a newsletter about the economy? Despite the official opening-up of the State of Texas, after an initial surge, economic activity has leveled off at a volume well below that of the beginning of the year. Awareness and fear of the disease appears to have put a ceiling on consumers and business activity at a point about halfway between the bottom and where we were before the pandemic. The worrisome part is that even that half-recovery seems to be sagging. Instead of a V shaped recovery it is starting to look more like a backwards check mark with a dash after it. A prime example of where the economy is can be seen in car sales, June's sales were up to about 12.5 million units, far better than April's 8.7 million but still well below the nearly 18 million per month rate we saw a year ago.

We have written before that there are four things that are necessary to recover from this economic slump. First, the Fed needs to keep holding interest rates down and continue to force liquidity into the system, and it has. Second,

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Congress needs to renew the stimulus package for the rest of us before the end of July, and the prospects for that are looking good. Third, we have to collectively act in a responsible manner and not have group gatherings, to wear masks, and to social distance. We appear to be failing that one massively. Finally, we will ultimately need a vaccine and widespread vaccination. That is still nine months to a year away. If we, here in the South and West do not start taking this seriously and acting like it, the near future does not look good economically.

There are signs of hope in the economic data this month. Not only have we Americans accumulated a record amount of cash on hand, there is evidence that we are ready, able, and willing to spend it as long as we don't have to interact with many people. Lumber futures jumped 82% to a level higher than they were before the pandemic in June. The apparent reason is that home improvement projects are booming along with construction to separate people from one another in outdoor and indoor settings. Manufacturing too seems to have bounced off the bottom in June with the Institute for Supply Management reporting its Purchasing Managers Index to have risen to 52.6, indicating that the sector is no longer contracting. The ISM PMI was down to 41 in April and 43 in May. Its rise above 50 signals that growth has returned to the American manufacturing sector.

The short and intermediate term outlook remains uncertain. If, as we are already hearing about anecdotally, local hospitals go into overflow and cannot treat all the incoming cases adequately, we could see another major sag in the national economy. The states now seeing major Covid-19 surges provide about 30% of the U.S. GDP. If we can slow the spread, things will likely level off with subdued but not falling economic activity. The longer-term outlook still looks delightful, but a lot depends on how much damage we do to ourselves first.

Until next week we remain at our posts, wading through the volumes of economic data in search of meaning and better ways to manage your portfolios.

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