THE PERSONAL WEALTH COACH®

An SEC Registered Investment Adviser

Jeffrey W McClure CFP® | TPWC | *Jacob A McClure* CIMA®

PO Box 1029 / 918 N. Main Street
Salado, TX 76571

(254) 947-1111
(800) 914-7526

Serving Investors Since 1982

www.tpwc.com

jeff@tpwc.com

jake@tpwc.com

July 14, 2020

TPWC Market and Economic Update – Special Edition

The Markets

Since our last missive on Friday, the S&P 500 Stock Index (SPX) inched up 0.39% to close at 3197.52 and is up a very substantial 1.66% for the trailing 5 days. That close puts it very near the top of the trading range it has established since the end of May, only 1% below where it was at the beginning of the year, and up 6.44% from one year ago. The worrisome part of those numbers remains the very substantial difference between the value and growth sides of the Index. The Value index is down over 16% year-to-date and yet is trading at about 18.5 times its trailing one-year earnings; a level consistent with where the economy might be a year from now in an optimistic scenario. The SPX Growth Index, on the other hand, is up over 10% year-to-date and over 16% for one year. It is trading at 31.5 times its trailing earnings, a level we have not seen in twenty years and suggesting it is overpriced. Historically, when large-cap growth stocks have gotten this far ahead of their underlying earnings it has not ended well.

This market looks more and more like the SPX of the late 1990s. The difference is that in the '90s, analysts and companies were nearly unanimous in forecasting that the good times would roll on for years while in this market no one claims to have any idea what is coming. Caution is advised as the stock market was cheap in March but may be overshooting at present. It is hard to remain focused on reality and actual values when growth stocks are roaring into the stratosphere but that is where we are. The value side of the market is priced based on a more gradual and muted recovery while the growth side assumes that all will not only be well, but far better than pre-pandemic a year or so from now. We are focused in Value, and as such have not seen our numbers soar to dizzying heights. We intend to keep our focus on real numbers rather than speculative hope for an outsized near future.

The ten-year U.S. Treasury note yield slipped another 3% to 0.626% as it continues to forecast a recovery, but one in which economic activity is substantially below pre-pandemic levels a year from now. The price of West Texas Intermediate crude oil (WTI) seemed to indicate agreement at $40.44 per barrel, down less than 1% from Friday but about one-third lower than it was a year ago or at the beginning of the year. Futures contracts for WTI are virtually constant in price through November at about $40.

The Economy

The pandemic continues to dominate the economy. The surge in new confirmed Covid-19 cases from Florida across the country to California is depressing economic activity and, according to members of the Federal Reserve Board, is dampening out the recovery. California, beset by an out of control spread, is reversing its opening actions and started shutting down amusement parks, zoos, bars, and indoor restaurants. Florida, the test bed for opening up early and getting about business, reported a record 15,300 new cases on Sunday, beating New York at its peak infection rate by a substantial margin. Their death rate, too, broke records at 132 per day. The rise in confirmed cases could be blamed on more testing, but there too Florida set a record with rates from 15% to 18% of those tests coming back positive compared with 4.4% just over a month ago.

Hospitals in Midland-Odessa, deep in West Texas are turning away out of town ICU transferees. Houston ICU beds are full and several hospitals have embargoed new, critically ill patients. In Bell County, six weeks ago we had 309 confirmed cases while as of yesterday, the number was up to 2,137. Over the same period, deaths have risen from 3 to 14. Anecdotally, we have seen a decline in traffic on I-35 as the infection rate rises. Our experience is that traffic on the Interstate is a good indicator of what is to come in the immediate future in the national economy.

There is not much new in this information from Friday, so unless there is a major mid-week change, we are going to suspend this special Tuesday edition. The critical advice we have is to recognize that if you get infected at this point and need hospitalization, it may be difficult to get the quality of care you otherwise would. Hospitals and ICUs are filling up and, critically, are increasingly short on trained staff. Treat the threat like it is real because it is. Anyone you meet could be infected and not yet know it.

Until Friday, we remain ready to serve you. Don't hesitate to call or email with questions or concerns.

Jeffrey W. McClure CFP®
M.S. Personal Financial Planning

Jacob A. McClure, CIMA®