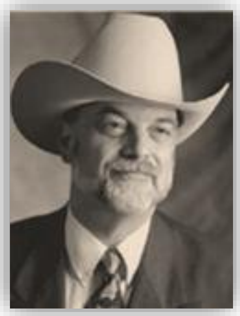

THE PERSONAL WEALTH COACH®

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TPWC Market and Economic Update

The Markets

The S&P 500 Stock Index (SPX) closed out the week on Friday, July 17, at 3224.73, up 1.25% and certainly the highest it has been since February. It is officially now down only 0.79% year-to-date and down 4.77% from its top back in February. The stark contrast in returns between the value side of the SPX and the growth side of that index continue to be worrisome. The SPX Value Index is still down 14% year-to-date and has a price-to-earnings (P/E) ratio of about 16.7, not unreasonable if we have a decent economic recovery next year. The SPX Growth Index, on the other hand, is up over 11% year-to-date and almost 18% over the past 12 months with a P/E ratio of about 31. In other words, the large-cap growth side of the market is priced as if we are about to see corporate earnings for next year double when compared with last year while the value side is expecting a recovery in 2021 to about where we were in 2019. It is unlikely that people buying growth stocks have thought much about that but rather are likely buying more of the high-flying companies because they have been "going up." In our nearly four decades of market watching, growth getting this far out on an optimistic limb has never ended well. Either we are in for an unprecedented corporate earnings explosion in the next year, or the stock market is due a correction.

The ten-year U.S. Treasury note sagged about 6.2% for the week to end at 0.623%, continuing a bumpy but consistent fall since its attempt to reach 1% at the end of June. The silver lining remains that the Treasury yield curve remains positive, continuing to forecast a recovery, albeit a relatively weak one, a year or so from now. West Texas Intermediate crude oil (WTI) continued to sustain a remarkable degree of stability, dropping a mere 0.02% to $40.60. The oil market is forecasting that by the end of this year demand will likely still be down by 1/3 from 2019.

The Economy

The foundation of the U.S. economy is consumer spending and the trends in that critical area tend to closely follow the employment market. The good news is that our economy has recovered about 7.5 million jobs from the bottom of the employment situation at the end of May. The bad news is that despite that recovery number, we are still down about 15 million employed persons since February, not counting furloughs. Another less than pleasant number is that while we had about 250,000 job losses per week before the pandemic, we now are running at a fairly steady 1.3 million losses per week. Worse, major corporations have begun warning of significant furloughs and layoffs to be expected in October as the federal funding for jobs runs out.

Anecdotally, surveys have found that there was a widespread expectation by employers that the crisis would be over my mid-July but instead of a return to normal they are seeing surges in infection and a second wave of restrictions and shutdowns. Even in businesses not restricted by government decree the reports are that customers are just not coming in out of fear of the rising infection rates. The overall economic picture in the economy looks very much like the oil market and the value side of the S&P 500. Things looked really bad but have recovered about half of what was lost and are stabilizing there with a slow sag appearing in the numbers.

Ironically, during and following the financial crisis of 2008-2009, the U.S. was the first major economy to recover and led the world in restoring normal growth but in this crisis, we are far behind the pack. China just reported that despite the severe blow it took in the first quarter, its second quarter GDP came in at an annualized rate of 3.2%. Most European countries are well on the way back, with restaurants opening and the infection rate generally under control. Here in the U.S., our new cases per day are not only the highest they have ever been but growing exponentially. Consumers recognized that this month as sentiment fell 4.9 points from June, now down 28 points from February at 73.2.

The key to a recovery remains based on controlling the spread of the coronavirus. On July 16, the U.S. again broke all previous records with 77,255 new cases. For the third straight day, Texas broke its record for deaths at 174 with the total now at 3,375 in three and a half months. The infection growth rate in the U.S. continues to suggest a doubling of cases every 35 days or so and the mortality rate for the disease is holding steady at about 4%. Moody's Analytics, one of the more consistently accurate economic forecasting services, is now estimating that about 55% of Americans will catch Covid-19 and that our total death toll will reach around 700,000, based not on some epidemiological model but simply on the data we have generated so far. Bell County is running ahead of the nation with a new confirmed case growth rate of about 4%. From the end of May we have risen from 300 cases with 3 deaths to 2,574 cases and 17 deaths. At the current rate, the numbers are doubling about every two weeks.

In short, the near to intermediate term view is not good but the long-term still appears bright. Once a vaccine is developed and fully distributed, we can assess the damage and start rebuilding. That rebuilding is already being planned and it looks fantastic. In the shorter term, we Americans seem to be having a lot of trouble getting our collective act together. Much of the market is ignoring that issue. We can only hope that the optimists are right.

Until next week, stay safe, wear your mask, and we will remain on duty, watching for opportunities and pitfalls.

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