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July 24, 2020

TPWC Market and Economic Update

The Markets

The S&P 500 Stock Index ended the week at 3215.63, down a tiny 0.28% from last Friday's close. That small sag for the week obscured the midweek surge that took it to nearly 3280 before a rise in jobless claims and further increases in unemployment claims sapped the energy out of the market. This week's close left the SPX down a mere 0.47% year-to-date and down over 5% from its February high of 3386.15. Interesting to us more detailed market watchers was that the S&P 500 Value Index which has trailed far behind the SPX this year, *rose* nearly 1% for the week, leaving it down "only" 12.9% so far this year while the Growth Index slipped downward slightly.

The U.S. 10-year Treasury note yield assumed a more pessimistic stance, slipping nearly 7% to 0.582% on news that the COVID-19 pandemic appears to be accelerating in the U.S. while Europe seems well on the way to full control of infections. That interest rate sag was accompanied by a fall in the dollar/rise in the Euro to $1.17 per dollar. In the depths of the initial pandemic as Europe struggled with the virus, the dollar to Euro ratio stood close to $1.00. The U.S. Treasury yield curve remained solidly positive, if at near record low interest rates for all maturities. West Texas Intermediate crude oil (WTI) rose 1.9% to $41.34 reflecting or perhaps causing the rise in value stocks.

The Economy

In a whiff of good news, the HIS Markit U.S. Manufacturing Index inched upward for July to 51.3 on a scale where numbers above 50 indicate expansion and below 50, contraction. The rise was driven by the first expansion in factory activity since February as both new orders and current output rose. Unfortunately for the larger economy, the Markit survey noted that workforce numbers were virtually unchanged. Companies generally reported that commercial customers were forecasting no significant growth in demand out several months.

In another bright spot, the Conference Board's June Index of Leading Economic Indicators (LEI) increased by 2% in June, but the underlying data suggest that the recovery is weak and has decayed from May's 3.2%. Despite the gain, the LEI is down 8.4% from where it was a year ago. The three-month average, a more accurate indicator of things to come, fell 0.5%, suggesting a weak spell may be coming in the domestic economy. The report also indicated that capital goods orders are up while consumer purchases were down from June. The notable point in the report is the capital goods. Businesses ordering long-term capital goods are taking advantage of the current slowdown to modernize and automate their processes which is a good sign for the long-term. The Conference Board warned that if the resurgent spread of COVID-19 is not curtailed, the economy risked slipping back into recession with substantial job losses as there is a clear relationship between the rate of spread of the disease and regional economic activity.

In an issue of more immediate impact, Senator McConnell, the Senate Majority Leader announced Friday that the Republicans had not agreed on a new stimulus proposal to replace the one that ends this month. He suggested there might be a Republican version of the bill sometime next week and that negotiations with the Senate Democrats and the House on the differences between the bill passed by the House would not begin until the Republicans had a proposal. The immediate issue for the economy is that many small businesses are surviving on funds from the bill that expires at the end of next week and if the additional unemployment payments cease, massive rental non-payments are likely to follow and lead to real estate companies defaulting on bank loans. Banks are already responding by setting aside record levels of reserves against defaulting loans from consumers and businesses.

Business surveys continue to suggest that at least 25,000 businesses will be shutting down for good, commonly with a declaration of bankruptcy over the next few months unless something approaching a miracle occurs. Many of them survived the shutdown but now are faced with dramatically diminished customer traffic as the fear of contagion keeps people at home. Many too have hung on to their employees, attempting to wait out the crisis but are now running out of even the Payroll Protection money they borrowed from the SBA. Some areas, where face to face meetings are limited, such as home sales, appear to have bounced back to about their pre-pandemic numbers in June, but most retail outlets are hurting. Rent and utility bills don't decrease as sales fall. Even major companies are announcing probable large-scale layoffs or furloughs in the coming months.

In our opinion, the brightness of the post-pandemic economy is still there but between now and then, particularly if the contagion growth is not contained, there may be some rather dark times ahead. Those who had ample reserves or who have been able to adjust their plans and spending enough to count are likely to survive. Businesses and families who were on the edge before the pandemic are hurting and may not make it financially.

Until next week we remain your faithful portfolio managers, analysts, and advisors,

Jeffrey W. McClure CFP®
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