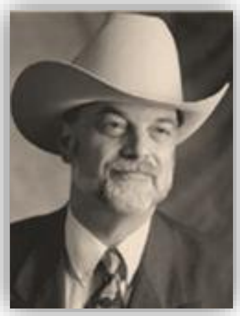

THE PERSONAL WEALTH COACH®

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TPWC Market and Economic Update

The Markets

Our favorite but sometimes strangely behaving stock index, the S&P 500 (SPX), turned in another good week even as the economic bad news piled up. It rose 1.73% to close out the week at 3271.12. A sudden surge upward late Friday saved the week's numbers and left the Index up 1.25% year-to-date. The increases were all concentrated in the growth side of the index with several tech firms reporting higher than expected earnings, fueling a rush to buy those stocks. That further increased the concentration in a few tech stocks that now are a large portion of the SPX's total capitalization. Recently, five large-cap, tech, growth stocks, Microsoft, Apple, Amazon, Alphabet, and Facebook, made up over 20% of the total index. Meanwhile, the value side of the Index has continued to lag, down 13.65% year-to-date.

The 10-year U.S. Treasury note yield did not join in the party, declining over 8% for the week to close at 0.535%. In our over 37 years of observing and participating in the markets, had anyone told us before now that a ten-year Treasury note would only pay a half percent a year in interest, we would have thought them insane, but here we are. The only glimmer of good news in the bond market is that the anemic yield curve is still positively sloped, suggesting better times are out there somewhere in the future. That future may be a couple of years out as interest rates remain near zero for maturities out to about three years. The oil markets joined in the gloom party with West Texas Intermediate crude oil declining 2.15% to $40.44.

The Economy

We wish there was a lot of good news to report this week, but, sadly, there is not. The big economic news this week was expected but still shocking. The official first estimate from the Commerce Department was that the Gross Domestic Product (GDP) of the United States declined at a seasonally adjusted annualized rate of 32.9% in the second quarter. Translated into more practical terms, the U.S. GDP fell over 8% in the second quarter after falling about 1.25% in the first quarter. The second quarter GDP was 9.5% lower than it was in 2019. The United States first began formally collecting GDP data in 1947 and 2020's second quarter was the largest drop in any quarter since the data collection began. The worst month of the quarter was April, with a recovery that began in June, but July's anecdotal evidence suggests that the nascent recovery may have begun to stall over the past several weeks.

Consumer spending, making up two thirds of our GDP, was the largest source of the decline as it dropped at a 34.6% annualized rate in the quarter, but the business spending was not far behind at a negative 27%. While things rebounded in June, the near-term future does not look good. The Conference Board reported that consumer confidence dropped from a reading of 98.3 in June to 92.6 in July. Worse, that report also noted that only 31% of consumers expected business conditions to improve in the next few months. Declining confidence numbers and low expectations for a near-term recovery have historically been predictive of depressed consumer spending.

In a separate report from the Labor Department, applications for unemployment rose in the last week by 12,000 to 1.43 million with the total number of persons receiving unemployment benefits up by 867,000 to 17 million. That the economy is in a funk is no surprise given that the Census Bureau reported that over 51% of households have experienced a significant decrease in income as of mid-July. That number parallels the report in the Wall Street

Journal that 54% of U.S. small businesses are experiencing financial difficulty and about half that number believe they may not survive the current crisis.

Meanwhile the coronavirus continues to spread, breaking new records on a weekly basis with the U.S. death toll now up to nearly 153,000. Back in early June when Bell County only had about 700 confirmed cases, we wrote that at the rate of growth reported, by the end of July the cases would rise to about 3,000. As of July 31, there were 3,375 confirmed cases of Covid-19 in Bell County. We did miss the mark on deaths as instead of 40 as the growth rate suggested, we now stand at 29, but our infection growth rate has not slowed and is still running at about 4% per day equating to a doubling about every three weeks. Unless we change our behavior, by mid-August that number will be around 13,000 and deaths will be around 120.

There is good news. Several vaccines in development have shown promise and one by Johnson & Johnson has officially shown a "robust response" in antibody production in primate tests. Indications are that an approved, effective vaccine may be available by the end of this year or the beginning of 2021. Unfortunately, that means that it will be probably mid-2021 before an effective vaccination is in place in the population and we can begin to emerge and resume normal activities. This pandemic will be with us at least through next year. Once it is behind us, we continue to believe that the economic expansion that is to come will be more than impressive. For now, what we can do is to change our behavior and limit the spread of the infection.

Until next week, we remain your faithful analysts, managers, and always at your service.

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