THE PERSONAL WEALTH COACH®

An SEC Registered Investment Adviser

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TPWC Market and Economic Update

The Markets

The U.S. stock market, represented by the S&P 500 Stock Index (SPX) jumped 2.45% for the week closing August 7, closing at 3351.28 on hope that a generous stimulus bill will emerge from Congress and be signed by the President. The Index is now up 3.73% year to date. The 10-year U.S. Treasury note yield joined in the hopeful celebration to close up about 5% for the week at 0.542%. West Texas Intermediate crude oil (WTI) agreed with the optimism and rose 2.72% to $41.54.

The growth side of the Index, a relatively small number of large corporations that are reaping great benefits from this crisis, remains priced for eternal perfection, while the value side, priced based on realistic long-term estimates, remains down about 12% year to date. When, not if, the pandemic ends, we expect to see a massive turnover as the new purchases to offset the current crisis cease, and people return to physical meetings, physical presence at entertainment, and shopping in physical stores. It will be interesting to watch.

The Economy

The official U.S. unemployment rate fell to 10.2% in July according to the Labor Department as, for the month, 1.763 million jobs were added. Unemployment officially peaked at nearly 15% in April. That improvement sounds impressive until one looks at the numbers in perspective. We still have 13 million fewer jobs than we did in February's survey. At the same time as the official unemployment figures declined, the number of longer-term unemployed increased by 4.6 million. In February there were officially about 152.5 million Americans employed in non-farm jobs. In April, that number declined to 130.3 million and in July had rebounded to about 139.6 million. In short, we lost about 22 million jobs and have recovered about 9 million. Note that those numbers do not count the self-employed or contract workers who are out of work, a number estimated at about 7 to 9 million.

There is a darker side to the jobs numbers. In May and June, the number of announced layoffs from major companies declined to 170,200 after peaking at 671,000 in April. Then, in July, the number jumped back up to 262,600. To put those numbers in perspective, in a normal month the announced layoffs before the pandemic averaged about 60,000. Announced layoffs are a minority of the total but they are a clear indicator of what is happening well in advance of the Labor Department surveys. Announced layoffs in July were over 54% higher than in June and six times the numbers from July of last year. The bottom line is that even as employers rehire people, there are more layoffs occurring and the potential for more to come.

In the category of less-bad news, 1,186,000 people filed for initial state unemployment compensation in the latest weekly report, down from the 1.5 million weekly new claims at the peak of the recession. That number, while improving, is still five times the pre-pandemic level.

There was some good news to see if one looked hard enough at the data. Orders for Class 8 trucks (large, long-haul, semi-trailer tractors) jumped 28% in July from June. That surge in new truck orders strongly suggests major transportation companies are seeing data sufficiently optimistic to cause them to make a major bet on an economic recovery six months to a year from now. At least part of that optimism is being generated by the unprecedented money supply numbers. Historically, the amount of liquid cash in our economy has equaled about 70% of our annual GDP. At the end of the second quarter, as July began, the cash available (M2) rose to a record breaking $18.234 trillion, or 95% of GDP. More, of that record M2 level, a large portion was held in checking accounts (M1), $3.426 trillion or 18% of GDP, another all-time record. For comparison, the ten-year average M1 is 9% of GDP. Money held in short term cash positions rose by an astounding 141% from the first to the second quarter!

Why is that important? At some point, that excess money is going to be spent! Historically, future growth in the U.S. economy has largely been fueled by the availability of cash, either through deposits or bank loans. Banks are increasing standards for borrowing, which tends to choke off growth, but the phenomenal quantity of cash available to companies and individuals is likely to fuel a burst of spending and investment once this pandemic is behind us, and that promises to fuel one of the biggest economic booms in our history. Additionally, the plentitude of cash on hand in short term deposits suggests that interest rates will remain low for some time after this crisis becomes history.

The bottom line remains much the same. In the short term the outlook is cloudy, particularly if Congress and the President cannot agree on a new fiscal stimulus package as a continued cushion against the devastating economic effect of between 20 and 30 million people out of work and not buying things. For the long-term; however, the signs of an economic boom when a vaccine is widely distributed are becoming more and more evident.

Until next week we remain steadfast in our search for value and the future wellbeing of our clients and their portfolios.

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