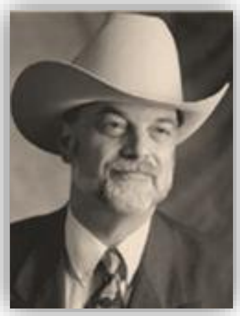

THE PERSONAL WEALTH COACH®

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TPWC Market and Economic Update

The Markets

The S&P 500 Stock Index (SPX) continued its relentless climb, rising 0.72% for the week to close at 3397.16, a record high and 0.33% higher than it was at the market top in February. That new record puts the SPX up 5.15% this year but leaves the value side of the index still down 12.44% year-to-date as about ten large-cap growth stocks continue to drive the SPX average. Once more, we must confess that a record stock market closing price in the face of over 10% unemployment and an economy facing reduced GDP for a year or more is confusing to say the least. We continue to watch those growth stocks, and the index levels with trepidation. By any historical precedent, the soaring valuation of the S&P 500 growth index is unsustainable but sometimes unsustainable growth can go on for some time before it finally falls back into the realm of reality.

The yield on the ten-year U.S. Treasury note demurred with the stock market as it fell over 10.5% to close at 0.635%, down about 2/3 for the year and about 60% from a year ago. Oil remained neutral with West Texas Intermediate crude closing at $42.29, about where it was last week.

The Economy

A few months ago, there was widespread belief that this "coronavirus" thing would be over with by mid-summer but as we approach the end of August, it still dominates economic news. The national death rate is now up to 174,000, and here in Texas the death toll has risen to 11,252, with 51 in Bell County.

The official "jobs lost" weekly number, represented by new unemployment claims nationally, after dropping below one million last week, jumped back up to 1.1 million in a stark warning that businesses are still laying off workers. If we include the Pandemic Unemployment Assistance (PUA) filings not eligible for state unemployment benefits, the number for the week was 1.434 million, significantly higher than last week. Notably, though, the latest State Employment and Unemployment report for July came out with some not so bad news. The official unemployment rate fell by 9/10 of one percent to 10.2 percent. That number is still 6.5 points higher than it was a year ago and remains higher than it was at the worst point in the so-called "great recession" of 2008-2009. The good news is that another unemployment number, continuing claims, are now over two million less than at the depths of the slump but are still at nearly 15 million compared with around 1.7 million before the pandemic and twice the worst number we saw in 2009.

Normally, a high unemployment rate would put the damper on home sales and new home building, but this time is very different. Sales of existing homes soared 24.7% in July from June to a seasonally adjusted rate of 5.86 million, up 8.7% from last year, with 68% of those sales were being made in one month or less after listing. The limited supply combined with the near-record surge in buyers pushed the median sale price to $304,100, an all-time record. At the same time, new homes being built jumped 22.6% from June's numbers, while new single-family building permits rose 17%. While the jump in activity in July is impressive, it still leaves the total, year-to-date numbers, below where we were last year at this time and still not as high per month as the numbers were in February. Driving the resurgence in home sales and construction are two major socioeconomic forces. First, mortgage interest rates are lower than they have been in memory. The second force is a surge of professionals fleeing congested urban centers for the far less expensive suburbs where prices are lower as they now can work from home digitally.

Meanwhile, Walmart, Amazon, Target, Home Depot, and Lowes reported record earnings and sales for the second quarter as those retailers capitalized on stay at home consumers even as less-flexible retailers lined up to declare bankruptcy. Like the retail results, this coronavirus recession is being selective, having a devastating impact on workers with lower education levels even as the more highly educated workers appear to be generally thriving and buying houses as they migrate from urban centers. A similar trend emerged a hundred years ago as those without a high school education tended to lose their jobs in and following the recession of 1920-21 while those that had at least a high school diploma were more able to benefit from the economic changes.

Our outlook remains the same. We are very likely in for a rough time until we have and fully deploy a reliable vaccine in about a year. From there we believe we will see a rebuilding followed by a decade or so of economic growth as good or better as we have seen in our history. Meanwhile, patience, perseverance, and caution need be our guides.

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

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