THE PERSONAL WEALTH COACH®

An SEC Registered Investment Adviser

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TPWC Market and Economic Update

The Markets

Our favorite if sometimes irrational stock market indicator, the S&P 500 Index, rose a whopping 3.6% for the week ending 8/28, to close at 3508.01 setting yet another record high. It is now up 8.58% for the year and almost 20% from this time a year ago. It remains dominated by a few very large capitalization growth stocks while the more reasonably priced, value side of the index is still down about 11% for 2020 and only up a bit over 3% for twelve months.

Following statements at the annual Jackson Hole central bankers' conference, the yield on the 10-year U.S. Treasury note soared over 15% to end the week at 0.732% while the 30-year Treasury bond yield climbed above 1.5% for the first time since the pandemic hit. Shorter term Treasury securities remained near zero out to about 2 ½ years, effectively forecasting the general economic malaise we are experiencing could last as much as three more years. West Texas Intermediate crude oil joined in, rising 1.78% for the week to $42.99, but is still down almost 30% year-to-date as demand for fuel continues to be slack.

The Economy

There were plenty of indicators during the week reminding us that the economy has not returned to normal but continues to crawl out of the coronavirus hole it fell into. The Commerce Department announced that consumer spending, the engine that drives about two-thirds of our economy, rose 1.9% in July, far below the 8.6% and 6.2% increases in May and June. Those rises, while impressive, leave the total about 4% down from where it was a year ago and about 5% below where it was in February.

Durable goods orders jumped 11.2% in July after rising 7.7% in June. Again, the increases were impressive, but the end result is a number down about 5% for the last twelve months. The lion's share of the durable goods orders was in the transportation sector, up 35.6% after a nearly 20% increase last month. Defense aircraft followed by trucking companies appear to be leading the way as online, home delivery demand has exceeded capacity. The increase in durable goods orders looks less impressive if the likely one-time jump in defense aircraft and trucks is removed, dropping the rise to 2.4%. Even with the impressive rise in orders for July, durable goods orders are still down about 5% from a year ago.

Suggesting that the unemployment figures will remain elevated for an extended period, new business formation is stuck at about zero while businesses shutting their doors for good is at the highest rate since official records have been kept. That observation is reinforced by the report from the Labor Department that new jobless claims last week were again just above one million with officially unemployed workers remaining in the 15 million range, not counting independent contractors or the self-employed. MGM announced 18,000 layoffs, and American Airlines warned of 19,000 job cuts which would bring its total layoffs to over 40,000. Schlumberger, the oil field service company, announced it was cutting 21,000 workers.

The big economic news for the week was not the slowly recovering spending and durable goods numbers, but a dramatic change in Federal Reserve Board policy. Chairman Powell announced in his speech at the Jackson Hole conference (held virtually this year) that the Fed would no longer raise rates preemptively to head off future inflation but would rather wait until inflation was well above 2% for an extended period of time before increasing rates. His speech clearly implied that short term interest rates will remain near zero for probably the next several years.

In essence, the Chairman of the Federal Reserve Board announced that the threat of any significant inflation in our economy has disappeared. Since the double-digit inflation of the 1980s the Fed has steadfastly seen fighting inflation as its highest priority and declared repeatedly that by the time inflation was visible it was exceedingly difficult to defeat. The result was a now four-decade old policy of increasing interest rates well before inflation appeared. That policy has now officially ended. Globalization and automation have created a world in which, other than in local services, any attempt to increase prices has been met by someone else offering the product at a lower price.

If there was any doubt before, it is now clear that we are in and likely to stay in a very low interest environment for years to come. There was a time, only a couple of decades ago, when drawing a 4% or even 6% interest income to live on was a viable strategy. Today, a reasonable interest income would be more like one and a half percent, if you can find it!

The big, long-term picture remains the same. Until we have an effective vaccine and the population is widely vaccinated, we are in for slow going; an environment measured by how far down we are rather than year-over-year growth. Once the coronavirus is gone, the rebuilding process can start in earnest. Following that, it is our opinion, there will come an economic boom as great as our nation has ever seen.

Until next week we remain hard at work both in office and remotely, continually on watch for better ways to manage portfolios and support our clients.

Your obedient servants,

Jeffrey W. McClure CFP®
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