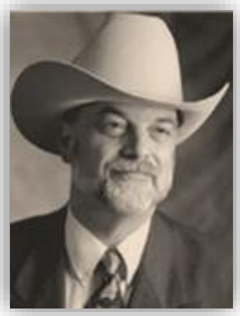

THE PERSONAL WEALTH COACH®

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TPWC Market and Economic Update

The Markets

For the first time since the first week in August, the S&P 500 Stock Index (SPX) reversed its string of weekly rises to fall 2.31% for the week ending on Sept. 4, closing out the week at 3426.96. The low percentage decline for the week hid the suddenness and violence of its 3.65% fall early in the day on Thursday. One of the most disturbing issues was the fact that there was no apparent trigger for the abrupt market volatility, just as the dramatic rise in market price in August was apparently without any obvious cause. One suspect did arise, Softbank, a Japanese "blank-check" company reportedly bought a record dollar quantity of options in the ten or so big tech firms that have driven the SPX higher late this summer. The surge upward in the already highly priced market leaders may have drawn other investors to tag along and herd behavior may have driven some of them away as the options market turned on Thursday morning. Whatever the cause, big swings in the Index commonly mark overpriced valuations in the SPX. Another oddity this week is that some of the more conservative stocks that have not joined in the spectacular rise of the Index this summer, rose during the apparent market panic. Utilities, for example, although still down about 8.6% year-to-date, rose almost 3% for the week and the SPX Value Index rose 0.57%. The SPX Index remains up over 6% year-to-date.

The 10-year U.S. Treasury note ignored the drama in the large-cap growth side of the stock market and was virtually unchanged for the week as the Treasury yield curve remained solidly positive, albeit with the maturities out to about three years staying close to zero. West Texas Intermediate crude oil futures (WTI) sagged about 8% to $39.56, losing ground all week on evidence that demand was not recovering as fast as some had hoped. WTI prices are down about 36% year to date, and in many ways reflect the relative economic growth in the U.S. this year.

The Economy

One of the more significant items in the economic headlines as September began was that seasonally adjusted initial unemployment claims declined from last week's one million to 881,000 according to the Labor Department. That number should be taken with a grain of salt though as it does not include the claims that would have been made under the CARES Act and is based on a revised seasonal adjustment formula that took effect for the first-time last week. Nationally, about 29 million fewer people are working as of mid-August than were gainfully employed at the beginning of the year.

The official unemployment rate for August fell to 8.4% as about 1.4 million new hires were reported for the month. While the official numbers do not count contract and self-employed workers, they do represent a greatly improved situation when compared with the official 15% rate we saw in April. The surge in new jobs was partially driven by hiring by the Census Bureau for the 2020 canvassing that starts this month. Unemployment remains dramatically higher than the 3.5% number we saw in February.

The Institute for Supply Management (ISM) reported that manufacturing output is continuing to recover although still well below where it was a year ago as output grew at an annualized, seasonally adjusted rate of 6.4% in August. In a separate survey, data firm HIS Markit said that its manufacturing index rose from the nearly neutral 50.9 reading in July to 53.1 in August. Both surveys reported an unexpected surge of new orders but suggested that manufacturers were not ready to hire back the large number of furloughed or laid off workers as total output remains well below where it was a year ago. Manufacturing jobs remain about 800,000 less than they were before the pandemic.

That surge in new orders was also reflected in the U.S. Trade Balance figures for July released by the Commerce Department. The U.S. trade deficit grew by 19% from June to its highest level since 2008 as import demand picked up in the U.S. but export growth was muted. Historically, a large portion of U.S. exports are generated as tourists arrive here and spend their money but with many of the countries that normally provide us with visitors locked out of the U.S. during the pandemic, the trade deficit is ballooning.

The Congressional Budget Office reported that the total U.S. federal debt held by the public would exceed 100% of GDP in 2021, the first time since World War II that it has done so. Ironically, despite near record debt levels, the total carrying cost, or interest due, on that debt is lower than it has been in a decade as Treasury interest rates remain at record lows.

One thing that is very clear is that we are truly in a very different economic and market environment than we have seen in a lifetime. In many ways, the markets and the economy are replicating the events of the "forgotten depression" of 1920-21, itself at least partly caused by a pandemic. Be prepared for things to remain surprising and abnormal until we see an effective vaccine and it has been widely administered.

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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