THE PERSONAL WEALTH COACH®

An SEC Registered Investment Adviser

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TPWC Market and Economic Update

The Markets

The S&P 500 Stock Index (SPX) dropped 2.51% for the week to close on Friday at 3340.97, taking it back to the level it was just over a month ago. The decline reduced its gains for 2020 to 3.41% but left it up over 11% from one year ago. It also took the SPX down 1.33% from its high in February, just before the pandemic was acknowledged. The decline over the past two weeks leaves the Index with an average one-year trailing price to earnings ratio (P/E) of 28.72, continuing as the most highly priced it has been during a "bull" phase of the market since the year 2000. As a point of reference, the average trailing P/E ratio of the SPX since it has existed has been 15.82. That the market is overpriced by historical standards is a given, but the odd thing is that corporate earnings, outside of a few large companies, are down from a year ago and the forward guidance is uncertain. While the future is always an unknown, historically, a market this high is headed for a price correction, and we may already be in one. Only time will tell.

The yield on the ten-year U.S. Treasury note joined in the swoon, dropping 7.2% to 0.671% compared with what looked like a delightful 1.75% a year ago. Still, the yield curve remains resolutely positive with the 90-day T-bill rate at 0.114%. The forecast from the bond market remains largely the same, suggesting interest rates and inflation will remain near zero for at least the next three years or so, but that a year from now the economy will be in a muted but solid growth curve. West Texas Intermediate crude oil (WTI) concurred about the weak economic near future as it dropped about 5.5% to $37.32, down about 40% year-to-date.

As a side note for investors, the rates we are currently seeing, and the relatively high level of the stock market indicate a possible need to adjust expectations. Historically, the rule of thumb for a well-diversified retirement portfolio was that it be invested about 60% in stocks and 40% in bonds. The average seasoned, high-grade corporate bond is yielding 2.34% and if mixed with the ten-year Treasury note would give a yield if about 1.5% for the interest-bearing side of the portfolio. Allianz just published an estimate for the S&P 500 return over the next ten years at 6%.

If we assume that Allianz is correct, a portfolio invested 60% in an ultra-low-cost surrogate of the S&P 500 and a conservative mix of corporate and government interest bearing securities would then provide a total average annual return of just over 4% per year over the next decade, assuming (unrealistically) you have no expenses or taxes to pay. There are other ways to invest than the standard 60-40 portfolio, but they do require research, education, and the willingness to tolerate the likely market behavior that may result.

The Economy

Although we may be growing used to it, COVID-19 still dominates the economy. The national deaths officially attributed to the pandemic is now at 192,616, with 14,136 in Texas and 71 in Bell County. The infection is growing at about 0.6% per day nationally and 2.6% per day locally here in the county. The good news is that the death rate nationally for confirmed cases has dropped from 6% early in the pandemic to 3% recently.

New claims for unemployment insurance rose slightly last week to 884,000, and that does not count independent contractors or the self-employed. The total number of out-of-work persons looking for jobs held steady at about

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29.6 million. The bottom line to the employment figures is that we have recovered about half the lost jobs from the bottom of the chart but seem to be stuck there. The low hiring rates seem to be a result not of government restrictions but rather from the reluctance of people to shop, dine-out, fly, or gather indoors.

The Commerce Department released the Consumer Price Index estimate for August and the national All-City inflation rate for the last 12 months came in at 1.3%. Surprisingly to some, the last couple of months have seen annualized inflation rates of about 3.6% despite a 17% drop in the cost of fuel.

New business starts nationally were up 14% from this time last year as laid off workers frustrated by their inability to find employment elect to go out on their own. Meanwhile, the record-breaking import numbers are straining our transportation infrastructure, particularly on the west coast as our recovering economy exerts a dramatic increase in demand for parts and goods manufactured in Asia.

We continue to see a likely market correction to come but a good, solid economic recovery once an effective vaccine is developed and widely administered. Unfortunately, that situation is unlikely to be in place until the middle of 2021. Following that, we remain optimistic that the decade of the 2020s will be as positively good as the year 2020 has been disappointing so far.

Until next week we remain on guard and at our posts ready to serve you.

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