THE PERSONAL WEALTH COACH®

An SEC Registered Investment Adviser

Jeffrey W McClure CFP®   *Jacob A McClure* CIMA®

PO Box 1029 / 918 N. Main Street
Salado, TX 76571

(254) 947-1111
(800) 914-7526

Serving Investors Since 1982

www.tpwc.com

jeff@tpwc.com   jake@tpwc.com

September 25, 2020

TPWC Market and Economic Update

The Markets

The S&P 500 Stock Index (SPX) ended the week down 0.63% and down about 8% from its recent high at the beginning of September. Early Thursday morning it briefly dipped to a level that put it down 10%, the traditional definition of a "correction," but then fought to recover a couple of percent for the rest of the week. The bulls and the bears are in fierce competition. It is still positive year-to-date by just over 2% but the shift from the high-flying tech stocks has continued. News reports suggest that the median stock in the Index is down about 20% in 2020, which makes sense considering that is about where the general economy is running.

The yield on the benchmark ten-year U.S. Treasury note fell about 6% to 0.658% suggesting near term pessimism in the bond market. Still, the yield curve remains distinctly positive if clearly depressed. 90-day T-bills were yielding about 0.10% while the 30-year Treasury bond paid 1.41%. Interest rates are incredibly low and look more and more like they will be staying there for some time. West Texas Intermediate crude oil joined in the pessimistic pity party by declining 2.2% to $40.08, down 34.5% from the beginning of the year.

The Economy

Covid-19 continues to cast a dark shadow over the economy as the U.S. death toll passed 200,000 and newly confirmed cases continue to rise at about 40,000 per day to a total that now exceeds seven million. Here in Bell County, the confirmed count rose to 4,404 and the death toll to 84 as the confirmed infections continue to rise at about 2.5% per day.

The weekly layoff number increased to about 870,000 last week with companies that had hung on, often with government assistance, continuing to lay off employees at more than four times the rate seen in 2019 as the government benefits ran out. Anecdotal data suggest that the rehiring rate is declining as businesses face persistent low demand for anything that requires face-to-face interaction. Continuing unemployment claims indicate that the economy has recovered about half the jobs lost at the peak of unemployment but is stuck there as hiring and new unemployment claims appear to be equalizing.

Factory-made durable goods orders rose for the fourth month, increasing 0.4% in August according to the Commerce Department. In more good news, new orders for nondefense capital goods, excluding the volatile aircraft sector, rose 1.8% in the same month. Like the employment numbers, the manufactured and capital goods orders have recovered about halfway to where they cumulatively were in 2019, but the moves are all in a positive direction.

The flash Purchasing Managers' Indexes (PMI), indications of where business activity will be in the next few months, also were positive running at 53.5 for manufacturing and 54.6 for non-manufacturing on a scale where numbers above 50 indicate growth. Once again, those numbers indicate the economy is recovering but has a long way to go to get back to where it was six months ago. In sharp contrast, the Eurozone services PMI declined to 47.6 from last month's 50.5 as what appears to be a second wave of coronavirus infections sets in there.

In some optimistic news, Johnson and Johnson began a 60,000-person test of a single-dose vaccine in the United States, Brazil, and South Africa. If the results show that the vaccine effectively protects against Covid-19 and has no significant side-effects, it could be approved for emergency use early next year. Phase three testing is now underway by several companies with initial test results likely to start appearing in November. In all cases, while approval may come this year, it will be well into 2021 before sufficient amounts of the vaccines are available to begin vaccination of the general population. The hope is that one or more of the tests will result in a good level of protection without undue side effects and the process of ending this crisis can begin.

The Moody's Analytics Back to Normal Index ticked up from last month's 77.8 to 80.7 for the week, indicating that the U.S. economy continues to function at about 80% of the speed it was running just before the pandemic hit. Unfortunately, the oil patch impact has left Texas lagging the rest of the country at 75.6. The good news is that, on average, we are recovering at about 1.4% per month.

As you may guess, the bottom line remains unchanged. The economic recovery continues to grow but at an ever-slower rate as the restrictions put in place by governments are replaced by consumer caution in the face of the pandemic. A lot of structural damage has been done with a very significant number of businesses unlikely to recover from the downturn. A solid recovery can only begin once effective vaccination is widespread. That date appears to be about mid 2021.

Until next week we remain faithfully focused on effective portfolio management and serving you.

Jeffrey W. McClure CFP®
M.S. Personal Financial Planning

Jacob A. McClure, CIMA®