THE PERSONAL WEALTH COACH®

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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

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TPWC Market and Economic Update

The Markets

The S&P 500 Stock Index broke a string of four successive weeks of losses to rise 1.52% for the week, closing at 3348.44 but remained down about 6.5% from its high point at the beginning of September. The SPX is now up 3.64% year-to date. The week was marked by sharp swings in the value of the Index as bears battled bulls and the market leadership shifted. In a notable change, the S&P 400 Midcap Index, after spending most of 2020 lagging well behind its large cap SPX brother, rose 4.71%. It remains down 7.77% year-to-date but is finally gaining ground. Historically smaller stock indexes and value stock indexes have outperformed the growth and larger stocks over the long-term, but recently that was turned on its head as a relatively few large-cap growth stocks drove the SPX to records while smaller stocks and value stocks remained down for the year and for one year. That upheaval seems to be gradually reversing. For the month of September, the Russel 1000 Growth Index fell 4.8% while the Value Index fell only 2.6%. For the week, the value index rose 1.63%.

The yield (interest rate) on the 10-year U.S. Treasury note joined in a slightly more optimistic view with the stock market, as it rose 6% to 0.698%, reinforcing an already positive yield curve. Oil demurred as the price for West Texas Intermediate crude (WTI) pessimistically fell 7.71% to $36.99, well below the $40 per barrel price needed for many oil companies to break even. WTI is down about 40% year to date on a dramatically lower demand and a perception that the economy will not grow enough in the next year to accommodate all the oil production available.

The Economy

Even as the Covid-19 pandemic is gradually tapering off in developed countries like the United States, it continues to pop up with infection surges in places that were largely spared the initial wave of infections. This week the hot spot state was South Dakota as the U.S. death toll passed 208,000, about one-fifth of the 1,020,000 deaths globally. Bell County's deaths rose to 87 as the infection rate here slowed to 1.8% per day. All this has become just standard background noise, but it is still there and while it may be the "new normal" it remains a burden for the economy that likely will remain with us for a year or more.

In a lagging statistic, major retail store closures and bankruptcies hit a record unmatched in recent history in the first half of the year with anecdotal evidence suggesting the retail failure rate has continued to rise as the second half progresses.

More up to date information is that the number of new hires in the economy slowed sharply in September as the end of the federal supplemental unemployment payments took effect and the average family income fell 2.7%. So far, we have replaced about 11 million of the 22 million jobs terminated in March and April. In September, employers hired about 661,000 employees which sounds impressive until we note that in every month since April the economy generated a million or more jobs until now. Technically, the unemployment rate fell from 8.4% in August to 7.9% in September, but that number is generated by a household telephone survey and the response rate for that survey was at a record low level. That low response rate suggests that the official unemployment rate may not be as accurate as it has been in the past. What we do know is that many of the furloughed employees are being notified that their temporary layoff has become permanent and that major corporations are announcing layoffs in the tens of thousands almost every day as the federal pandemic fiscal support runs out.

Supporting the anecdotal evidence that the recovery may be stalling out, Moody's Back-to-Normal business activity index declined to 78.8 from its recent high of 80 on a scale where 100 was the business activity before the pandemic. The Index hit a low of 60 in April, then came back to about 75 in July and gradually worked its way up to near 80 in mid-August, then stalled and is now starting to fall back. In the state of Texas, the index stands at 72.9. All the indicators, from jobs lost and recovered, to retail bankruptcies, to the Moody's Index continue to point to an economy stuck at about 10% below where it was, and at risk for backsliding. The Federal Reserve governors have nearly unanimously called for Congress and the President to come to terms and provide a substantial fiscal injection into the economy to prevent further business losses and a potential second recessionary decline.

The longer-term prognosis remains unchanged. We are in for a bumpy ride between now and the widespread inoculation of the population with an effective and safe Covid-19 vaccine. That will be followed by a rebuilding period of what looks more and more to be a two- or so-year period with a full economic recovery likely in 2023. What follows depends on how we approach it, but higher taxation for people with over $400,000 in annual income is likely as is a probable economic boom lasting for the rest of the decade.

Until next week we remain committed, in every sense of the word, and alert to better ways to serve you and your portfolios.

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

Jacob A. McClure, CIMA®