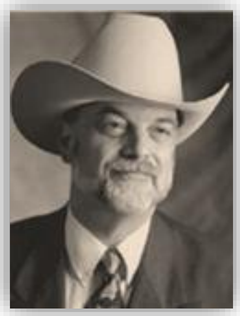

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TPWC Market and Economic Update

The Markets

After a stunning plunge late in the day on Tuesday after the tweet by the President that stimulus talks were to be suspended until after the election, the S&P 500 Stock Index (SPX) soared in the following days as the White House proposed a compromise that was reasonably close to the bill passed by the House of Representatives and at the end of the week, the President said he wanted to spend "more than the Democrats." The oscillations of the market point out just how seriously investors take the need for a solid stimulus bill to keep the economy from slipping back into recession. The SPX ended the week up an amazing 3.84% to close at 3477.13, rising a whopping 7.92% year to date, but is still about 3% below its high at the beginning of September. Large-cap growth stocks continue to lead the charge with the large-cap growth index trading at about 32 times earnings. For reference, the long-term average earnings multiple for the SPX is about 20, suggesting a correction, sooner or later, is still a real probability.

The ten-year U.S. Treasury note yield joined in the stimulus bill-related optimism as it jumped a whopping 11.8% to yield 0.78% by the end of the week. That jump, while impressive, left the T-note yield still down about 60% from where it was at the beginning of the year, suggesting the recovery may be a multi-year process. The Treasury yield curve steepened, again on optimism that Congress and the White House may be able to come to some agreement and get a substantive stimulus bill signed soon. West Texas Intermediate crude oil apparently got an invitation to the party and rose 9.6% to $40.55 putting major oil producers back in the black at least temporarily. Oil prices remain depressed by about 34% year-to-date.

The Economy

The big economic news for the week ending October 9 was that the stimulus bill was not dead. The President tweeted late Tuesday that talks were off until after the election but the market swoon that followed seemed to change his mind and by the end of the week talks were not only back on but the administration's position had moved much closer to what the House had passed. Fed Chairman Powell stated on Tuesday that there would be potentially "tragic" economic consequences if there were no substantial stimulus bill to broadly support households and businesses disrupted by the pandemic.

The global economic outlook brightened as the U.S. consumer's demand for imports reached the level they were before the pandemic. As a result, we posted the largest monthly trade deficit in more than a decade, despite a surprising series of record-breaking oil exports to China. In addition to simple consumer demand, the shift to working at home has dramatically increased the demand for computers and furniture from overseas, while the U.S. status of having the world's largest number of COVID-19 cases and hospitalizations caused the importation of protective gear and clothing to soar.

Speaking of oil, OPEC released a study indicating that oil demand already peaked in the developed world and will be unlikely to return to the levels of 2019 with oil usage declining for the foreseeable future. At the same time, in a glimmer of good news, the Moody's Analytics and CNN Back to Normal Index posted a small rise to 81.5 from last week's 80, up from 79 in mid-September. We are still 19% below where we were but we are still creeping back.

New unemployment claims came in at 840,000, well above the estimates from only a few weeks ago, and holding at a level well above the previous record 695,000 at the depths of the "great recession" of 2008-2009. Long-term state continuing claims continued to fall but much of that decline was attributed to people dropping out of the work force and losing benefits after six months. American Airlines, United Airlines, and Disney announced a cumulative nearly 100,000 in layoffs that have not yet shown up in the weekly numbers, and California temporarily halted all new claims as it attempts to work through its backlog of layoffs. Expect the new state unemployment claims to jump in the near future. Meanwhile, the federal unemployment compensation applicants continued to rise. Household income fell and job gains and postings continue to fall as the recovery is losing momentum. We can only hope that a stimulus bill compromise can be reached and becomes law before the damage is entrenched.

As a last, but critical point, multiple non-political analyses have all come to the conclusion that the outcome of the election will have little effect on the economy or the stock market. The danger lies in a contested result and the uncertainty of a continuous government that would bring. Those and other analyses have also concluded that the U.S. economy may take until late 2023 to fully recover but after that, the foundation may well be building to spur us into a very rational exuberance that has the potential to turn the 2020s into the boom decade we all want to see. Be patient. Do not be afraid of political outcomes. Have faith in us Americans to come to our collective senses and forge ahead. We have been here before and seen far worse in our nearly 250-year history. We prevailed then and will again.

Until next week we remain at our posts, safely socially distanced, either digitally or personally, defending your portfolio values and seeking to safely get you to your financial goals and beyond!

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