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 rose substantially early in the week, topping out on Monday, the twelfth, around 3550, then dropping back to around 3451 on Thursday morning before finally closing out the week at 3483.81, up a mere 0.19% for the week. The upside was on rumors that a compromise federal stimulus bill was possible, and the downs were when the hope faded, and new unemployment claims came in higher than expected. The final rise was on news that the Biden townhall broadcast had higher ratings than did President Trump's event. More on that below. The close puts the market up 7.83% year to date but still down 2.71% from the recent high in early September.

The yield on the ten-year U.S. Treasury note demurred with the stock market and fell about 4.4% to close at 0.746%, continuing its forecast of a muted recovery, but a better economy in a year than we are seeing today, as the yield curve remained positive. West Texas Intermediate crude oil joined with stocks in a mild rise of 0.57% to $40.78.

The Economy

Evidence continued to mount this week that without a new stimulus bill, the nascent economic recovery was in trouble as the Federal Reserve announced on Friday that its Index of Industrial Production fell a seasonally adjusted 0.6% in September and remains 7.1% below where it was in February. That less than optimal news arrived on top of a report on Thursday from the Labor Department that new unemployment claims rose to 898,000 in the week ending October 10, the highest level since August. The high number was despite the fact that California has temporarily stopped accepting new claims pending their working through the backlog of existing applications. Some questionable good news came in the same report as the number of ongoing claims dropped 0.9% to just over 10 million for the week ending Oct 3. The caveat on that positive number is that much, if not all of that drop may be from people reaching the six-month limit on state unemployment insurance.

A glimpse of good news came from the Social Security Administration as it announced that Social Security payments will increase 1.3% for 2021. That rise amounts to only about a $20 per month increase in the average monthly check, but every little bit counts! Unfortunately, for those on Medicare Part B, the average premium also rose $8.73 to $153.30, eating up about 40% of the payment increase. That increase in payments came as a result of what looks like a mild resurgence in inflation as the core Consumer Price Index rose an unadjusted 1.7% from a year ago. That number is still well below the Federal Reserve target of at least 2% per year.

We are receiving calls and messages suggesting there is a fear that the market will crash if a particular candidate wins the presidential election. The same fear seems to appear at each election for the past several cycles. What the markets are indicating is the opposite. Each time the Wall Street Journal reports a larger margin between the candidates, the market rises. All indications are that the market is quite unfazed about who will win the election but is concerned deeply about a severely contested election. We can say with a great deal of confidence that whoever wins, the market will be generally unaffected. Surveys of investors combined with historical scenarios suggest that the market would be most pleased with a Democrat in the White House and a Republican controlled Senate, which would likely result in four years of inaction on any major legislative initiatives. Those same studies also suggest, though, that even if the Senate changes hands, it would not deeply upset the markets. Our system is exceedingly stable politically, despite the political messages of both sides.

There are a couple of major short-term risks to the economy and the market values that are both obvious and widely ignored. If Congress and the President cannot agree on a new substantial stimulus package, many Federal Reserve governors and other leading economic professionals have warned that there is a very real possibility of slipping back into recession. The other risk is that the stock market, or at least the growth stock side of the market, is significantly overpriced by historical standards even as the economy is stagnating at a point where it is depressed about 20% from where it started the year.

We are in agreement with the more historically accurate economic forecasters that a recovery will come, presuming an effective and widespread vaccination program emerges, but the speed of that recovery may well depend on how many businesses and families economically survive to see the rise in economic activity. That survival rate appears to be largely dependent on a new fiscal stimulus bill being passed by the Senate and signed by the President. Either way, we will survive as a nation and an economy and we believe we will go on to prosper, the question at this point is what pain we will suffer between now and then.

Until next week, we remain faithfully ready to answer your questions and find better ways to manage your portfolio.

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