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THE PERSONAL WEALTH COACH®

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October 23, 2020

TPWC Market and Economic Update

The Markets

The S&P 500 Stock Index (SPX), representing the U.S. domestic stock market as a whole, sagged 0.53% for the week to close at 3465.39 as the coronavirus pandemic surged, a new fiscal stimulus bill was still stuck in negations between the White House and the House of Representatives, and with many Senate Republicans opposing any new bill. Despite the downturn, the SPX remains up 7.56% year-to-date but down 3.22% from its high point at the end of September. The Index remains driven by its largest few components as the rest of the 500 stocks remain generally depressed from where they were at the beginning of the year.

The ten-year U.S. Treasury note yield rose an optimistic 12.1% to end the week at 0.836%, its highest yield since June, but still less than half the yield it carried a year ago. The yield curve steepened, signaling that the bond market anticipates substantially increased loan demand a year or so from now. West Texas Intermediate crude oil prices dropped 2.5% to $39.75, falling below the crucial $40 point as demand forecasts sagged on news of the increase in COVID-19 infections.

The Economy

The lead story in the economy this week is that the forecast second wave of the coronavirus pandemic appears to be arriving. On Friday, the U.S. grew its lead position in the world for new COVID-19 infections in a single day, with a near record 71,671 cases, pulling further ahead of far more populous India. The U.S. also maintained its overwhelming lead in COVID deaths as it reached a total of 223,437, far outdistancing second place Brazil. The new surge in the United States is occurring not in the densely packed streets of New York or Los Angles but rather in the relatively sparsely populated states of Montana, Wisconsin, and the Dakotas. At the same time the numbers are rapidly growing in rural Illinois, Indiana, Michigan, Ohio, and Pennsylvania. Rural hospitals are already being overwhelmed and the new peak infection and hospitalization rates are probably weeks or months away. Aside from the tragedy of the high number of deaths and infections domestically, there is a strong correlation between infection rates and economic activity. Consumer spending and general economic activity tends to rise as local infection rates fall and decline as infection rates rise.

In the category of not-as-bad-news was the report from the labor department that "only" 787,000 new seasonally adjusted filings for state unemployment benefits occurred last week, down 55,000 from the previous week, but still almost four times the average filings we saw in 2019. The official number of those receiving state and federal unemployment benefits for the week ending October 3 was still at a near-record level of over 23 million versus about 1.4 million at this time last year. The numbers continue to slowly decline but whether because claimants are hitting the 26-week limit, dropping out of the labor force, or going back to work is unclear. Anecdotal information suggests that earlier improvements were primarily from laid-off employees being rehired but more recently the rehiring seems to have stalled out because of weak customer demand in many areas. That stalling-out of the recovery is reenforced by the Moody's Economics Back to Normal Index which stood at 81.5% this week; a slight decline from its 81.6% last week.

The Federal Reserve Beige Book, which reports anecdotal trends of activity across the different districts, found that economic growth in September was "slight to modest", well down from the "robust" growth reported during the summer. The report indicated that manufacturing, residential housing, and banking were doing relatively well while consumer spending and commercial real estate were fading. It also found that while some companies were hiring, others were doing mass layoffs. Oddly, in some cases, the same companies that were laying off lower-skilled workers were having a hard time finding qualified high-skilled workers to hire. That same divergence was seen as dealers reported a critical shortage of light trucks (pickups) while at the same time seeing a glut in economy cars on their lots. In a flash of longer-term good news, the amount of cash being held by corporations is at a record high and actually exceeds their collective short-term debt. The thought is that the excess cash could potentially trigger a surge in business investment once the threat of a coronavirus resurgence is behind us.

Best estimates are that an effective vaccine may be available in March or April and should be in widespread use by the end of the third quarter of next year. It is then that things will likely start to seriously return to normal. The most effective thing we can do between now and then is to wear masks. The University of Washington announced this week that if 95% of Americans were to wear masks when around others, 130,000 lives could be saved, and the recovery could start sooner and be far more robust. As always, it is up to us. Use your mask, keep your distance, and be aware that many of the new cases are coming from dining inside at restaurants. Stay safe and stay well!

Until next week, we remain at our (mostly digital) stations, ready to serve, and seeking to do what we do better.

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