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 (SPX) fell a whopping 5.64% for the week to close at 3269.96, nearly wiping out 2020's gain and taking it down to 8.7% below where it was at the beginning of September. The proximate causes appeared to be the new surge in COVID-19 cases and hospitalizations combined with an acceptance that the administration and the House were unlikely to agree on the size and targets of a fiscal support bill. The yield on the 10-year U.S. Treasury note moved in the other direction, rising 5% to 0.879% as the yield curve steepened. West Texas Intermediate crude oil (WTI) agreed with the stock market that a COVID resurgence was not likely to be good for the economy and sagged 10.5% to a money losing $35.59 per barrel.

With the SPX down nearly 9% and the generally accepted definition of a "correction" of a 10% loss, we are close to that metric. More, historically, the 10 largest S&P 500 companies tend to trade at about the same multiple of annual earnings as the whole Index, but they were priced nearly 60% higher recently. As we have written before, when large-cap growth stocks get this far out of line with the market, historically that divergence ends with, at the least, a correction. Fasten your seat belts, but also recognize that on the other side of this pandemic we are likely to see a substantial period of growth as we make up for lost time.

The Economy

In normal times the Commerce Department's quarterly GDP report is not only relevant but crucial in understanding where the economy is headed, but this time, with weekly data varying greatly, it is both old news and potentially very misleading. The first estimate of third quarter U.S. Gross Domestic Product (GDP) indicated it rose 7.4% when compared with the second quarter. Unfortunately, each quarter's headline number is annualized, indicating the rate the economy would grow if it maintained the quarter's growth rate for a full year, which in this case would be 33.1%, and is unrealistic. To put that number in perspective, the first quarter GDP fell an actual 1.25% and the second quarter GDP fell about 9%. Then, the third quarter GDP rose 7.4%. The final number leaves us still down about 3.5%, from where we were at the end of 2019. In short, we have gained back about two-thirds of what we lost in the first and second quarters.

Again, because things are changing so relatively fast, even that estimate is probably a bit off. The bounce-back we saw in the third quarter was evident in the weekly and monthly data that came in over the summer and appeared to be largely driven by the generous fiscal stimulus earlier this year. With the cessation of the stimulus, current data is indicating a deceleration of the recovery. That deceleration is also being amplified by the new, record-breaking resurgence in COVID-19. Once more, the short story is that the delightful third quarter growth numbers may well be irrelevant as we enter the second month of the fourth quarter. The question at this point is whether the recovery will merely slow in this quarter or ultimately reverse and take us back into recession.

Speaking of COVID, Texas has now had 18,283 deaths and the confirmed infection rate is now growing at an astonishing 10.3% per day. In Bell County, our death toll has reached 100 and the infections continue to grow.

In further news offsetting the soaring third quarter GDP figures, Caterpillar and 3M, both normally reliable bellwethers for the economy, reported falling sales. Caterpillar reported this week that revenue was down by at least a fifth (20%) in the latest quarter in construction, mining, energy, and transportation. At the same time, consumer durable industries, like Whirlpool were having trouble keeping up with demand as people refurbish their homes and buy new vehicles. An indicator that business investment is also recovering appeared as orders for capital goods, items used for manufacturing, increased one percent in September as well.

With the new GDP estimate, the United States appears to be in the middle of the large economic blocs across the globe. The Asian nations cumulatively have largely brought COVID under control and are leading with net positive annual GDP numbers. The Europeans are at the tail end and, particularly as new shutdowns are appearing as the pandemic is again surging there to new records. The U.S. appears to be riding in the middle but, as we mentioned above, much is dependent on what if any relief the Congress approves as well as how severe this second wave of COVID-19 turns out to be.

Until next week, we remain committed to persevere at fiduciary management of your portfolios for your best interests.

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