THE PERSONAL WEALTH COACH®

An SEC Registered Investment Adviser

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

November 6, 2020

TPWC Market and Economic Update

The Markets

The S&P 500 Stock Index (SPX) rose a whopping 7.32% for the week to close at 3509.44. That astounding weekly rise leaves it a mere 1.99% from its high point at the beginning of September and up 8.92% year to date. The word on the street was that a Biden presidency and a Republican majority in the Senate was the ideal situation for stocks as a divided government meant that there was little likelihood of major tax or regulatory changes. There were also elements of a relief rally in the gains as the specter of an unknown outcome to the presidential election receded. The SPX continues to be driven by about ten large-cap growth stocks priced at extraordinarily high prices so a correction at some point is not out of the question.

The ten-year U.S. Treasury note yield slipped a bit, falling 6.83% to 0.819% as the prospects for a major stimulus bill seemed to slip further away but the yield remained well above where it has been the past several months while the yield curve remained decidedly positive. West Texas Intermediate crude oil (WTI) rose over 5% to $37.41 but remained below the critical $40 level as economic prospects seemed to brighten.

The Economy

There was a lot of economic news this week but hidden in what is normally a relatively mundane press release was what may turn out to be a major shift in the U.S. economy. On November 5, the Bureau of Labor Statistics, one of our favorite government agencies as it is literally a bureaucracy and freely admits it, announced that "nonfarm business sector labor productivity increased 4.9% in the third quarter of 2020" as output rose 43.5% but the number of hours worked only increased 36.8%. To provide some context, productivity in the U.S. has been growing at one to two percent per year for the past decade. It rose a whopping 10.6% in the second quarter as a large portion of the American labor force was laid off or furloughed but that was a result of the layoffs. That labor productivity rose 4.9% even as people were being hired back is stunning. Business output remains 4% below where it was in the fourth quarter of 2019, but hours worked is 7.5% lower. This productivity revolution is most evident in manufacturing where productivity soared an astounding 19% in the quarter primarily in the durable goods area. Manufacturing output remains 6% behind where it was a year ago but in the face of an ongoing pandemic, American businesses have reorganized, automated, and generally made themselves more efficient.

Another surprising number was released during the week. A Stanford University survey found that 42% of currently employed workers in the United States are working from home. Counterintuitively, that high level of home-based workforce may be a big contributor to the jump in productivity. How much of that productivity gain and work from home percentage will be retained after the pandemic passes by is anyone's guess but at least some of the gains are likely to linger.

The labor market appeared to be in near equilibrium as official unemployment declined to 6.9% but new unemployment claims for the week held steady at 751,000. For the month of October, job growth was at 638,000, down from September's 672,000. Employers have added about 12.1 million jobs since April, just over half the 22.2 million lost in the spring. The official unemployment figures, which do not include self-employed or contract workers remain at roughly twice that of a year ago. Service industries in the U.S. constitute the bulk of employment and the data indicate that service hiring virtually stopped in the month of October. Survey and anecdotal information suggest that the record-breaking number of new COVID infections combined with colder weather may result in recent labor gains reversing as new layoffs hit. The labor recovery continues to be "K" shaped as factories and professions are hiring while services are continuing to lay off workers.

The COVID-19 pandemic remains with us as the U.S. recorded a record 126,403 new cases and 1,248 deaths on November 6. That takes the death toll in America to 235,601 in eight months and a cumulative 2.4% mortality rate for those confirmed infected. Here in Bell County, the cases and deaths continue to rise with 6,770 confirmed infections and 103 deaths. Over 19,000 people have now died in Texas from the virus.

We continue to foresee a dramatic rebound in the economy once we have an effective vaccine in widespread use, but we are apparently in the second wave of the pandemic and there are likely some surprises and bumps to come. We also continue to advise investors to hold fast to a well-diversified portfolio and a good cash reserve. The crisis is neither over nor likely to wreck us. Be patient. Wear your masks. Keep your distance.

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

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

Jacob A. McClure, CIMA®