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An SEC Registered Investment Adviser

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November 13, 2020

TPWC Market and Economic Update

The Markets

The S&P 500 Stock Index (SPX) turned Friday the thirteenth on its head and closed at a record high level of 3583.15, up 2.16% from last week and 0.12% above its previous record back at the beginning of September. Just as importantly, much of the impetus for the new record was garnered from a surge in value and mid-cap stocks that more than offset a sagging valuation in large-cap growth stocks as the Vanguard Mid-Cap Value Index rose 3.20% for the week. The Russel 2000 Index of small-cap stocks also rose to a record after lagging all year until now. Energy, industrial, and financial companies were the biggest gainers while former darlings like Zoom Video Communications fell. A rotation in the stock market from large-cap growth stock to smaller, value-oriented stocks has long been forecast but it will take more than a week's results to prove that the revolution has come. The drivers in the broad market surge as well as the rotation to more traditional stock groups appeared to be a result of further confirmations of a clear winner in the presidential election and news that a 90% effective vaccine may exist. More on that below.

The ten-year U.S. Treasury note yield joined in the celebration, rising 8.8% to 0.895% after climbing to just below the 1%-mark midweek. West Texas Intermediate crude oil (WTI) came along to the party, rising 7.3% to \$40.14 per barrel and at least theoretically putting a lot of oil companies back in profitable territory.

The Economy

There were twin headline items competing for center stage in the economy for the week. First, both the daily death toll and the number of new cases per day from Covid-19 continued to soar and second, that an effective vaccine appears to have been developed.

The daily Covid-19 five-day moving average death rate rose to a near-record 1,052 and the daily new cases in the U.S. hit a record 153,496 as the U.S. continued to surge ahead of India for the number one infection rate globally. The total U.S. death toll rose to nearly a quarter million as Covid-19 hospitalizations set a new record. Here in Texas, hospitalizations for the disease have doubled since October in Houston. Perhaps worse than the record number of new cases nationally and the surge in hospital admissions is the fact that the new wave appears to be accelerating, with the 7-day average higher than the 14-day average. Federal Reserve Board members, including Chairman Powell, have warned that the recovery from the recession could be at risk as the cases, hospitalizations, and deaths rise to new heights. Texas alone is approaching 20,000 fatalities with over one million cases confirmed and 10,500 new cases on Friday.

The bad news of the new wave of Covid-19 cases was more than offset in the markets by the good news that a vaccine jointly developed by Pfizer and BioNTech has had an effective symptom prevention rate of better than 90%. To coin a phrase, this is the proverbial "light at the end of the tunnel." In an interesting bit of irony, Pfizer-BioNTech refused any U.S. government funds from Operation Warp Speed in developing the vaccine, fearing regulatory controls that came with the dollars would unnecessarily slow development.

As good as the news is that a vaccine can be developed with that unexpectedly good success rate, there are problems. First, the vaccine requires two doses, three weeks apart, and it demands storage at -71 degrees

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Fahrenheit. Simply put, we don't have the storage or transportation capabilities to deal with a rapid distribution of roughly 650 million doses of the vaccine, even if Pfizer can produce them. Once the vaccine trials are complete, and they aren't, and approval is granted for widespread usage, it will likely take months just to vaccinate medical workers and first responders. The light is there, but the end of the tunnel is still a long way away.

Given that the Pfizer-BioNTech vaccine is going to be slow and difficult to distribute, it may be that it will be a different company's vaccine that ultimately dominates the distribution, and again, it likely will be mid-2021 before the average American can get the vaccine. Meanwhile, there is a consensus among physicians and responsible leaders that we need to double down on mask wearing, avoidance of indoor group gatherings, and social distancing.

In other economic news, home prices continue to rise at record rates across the nation abetted by record low mortgage interest rates, low inventory, and high demand. Most people are focused on staying sheltered as a surge of urban workers migrate to smaller cities and towns. U.S. job openings are rising to near the pre-pandemic level, although the unemployment numbers still are three times what we saw in 2019. The Consumer Price Index was essentially flat for October as business slowed in the face of rising infections.

The bottom line remains much the same. The American economy is healing slowly but is in danger of a relapse. True recovery will only come when we have an effective vaccine that is distributed to the vast majority of Americans. Until then, just how we do is up to us.

Until next week, we continue to serve up fiduciary management and perhaps more importantly, a sincere desire for you and your portfolio to do well over the long term.



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