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December 4, 2020

TPWC Market and Economic Update

The Markets

The massive steamroller that is the S&P 500 Stock Index, representing about $29 trillion in market capitalization, continued to roll forward in the week ending the week at 3699.12, up 1.67% and a whopping 14.3% year-to-date. The market-moving news this week was that Congress appears to be working on a bipartisan stimulus bill estimated to be around $900 billion while a Covid-19 vaccine started shipping. Another significant issue in the market numbers is that about 93% of stocks traded on the New York Stock Exchange are at 52-week high prices, meaning that the rest of the market is seeing some lift and it is no longer the ten biggest growth stocks alone that are driving the gains. As evidence of that rotation, the CRSP Mid-Cap Value Index rose 1.84% and (finally) got into positive territory for the year. Meanwhile, the Dow Jones Industrial Average once more broke through the 30000 level on Thursday but this time managed to keep its head above water to the weekend break.

Perhaps excited by the gains in the stock market indices, the yield on the 10-year U.S. Treasury note rose to 0.972% an astounding nearly 15% increase in yield. Lest you get too excited about potential savings rates rising, short term Treasuries on the secondary market saw a slight decline in yield to 0.075% (7.5/100 of one percent). A year ago, those short-term Treasuries were yielding almost 1.6%. West Texas Intermediate crude oil (WTI) came late to the party but managed to rise 1.32% to end the week at $46.09, up almost 23% in the last month.

The Economy

On the employment front, the Labor Department announced that hiring slowed in the month of November as employers added 245,000 jobs, a big drop from the 610,000 jobs added in October. The official unemployment rate fell to 6.7% from last month's 6.9% but much of the decline in that number was not from people finding jobs, rather from people dropping out of the labor market. The economy has now replaced 12 million of the official 22 million jobs lost as the pandemic hit, leaving 9.8 million people who were formerly employed still without jobs. Those numbers do not include self-employed or contract workers. The growth in Covid-19 infections and hospitalizations seems to now be the driving force in the slowing hire rate rather than governmental restrictions as Open Table reported seated diners nationally was at a -40% for the year in mid-November but was running at -65% on December 3 with the largest declines appearing where the infection rates were highest.

New applications for unemployment insurance fell by 75,000 to a seasonally adjusted 712,000 for the week ending November 28 after rising the previous two weeks, but the number is suspect as employment offices were closed part of the reporting week. The rise over the previous two weeks, accompanied by a decline in new job creation was a likely spur, as a proposal by a bipartisan group of lawmakers to pass a compromise $908 billion stimulus bill gained traction in Congress, according to Bloomberg.

Over the past half century and more, major oil producers and refiners, led, in the United States by Exxon, have been traditionally considered the bluest of the blue-chip stocks, driven by the assumption that petroleum and natural gas demand as the fuels of choice would increase forever. A couple of months ago, BP, formerly British Petroleum, announced that the peak demand for oil was probably in 2019, with a decline going forward, as it wrote down the value of its reserves. Now Exxon has done the same for its natural gas holdings, chopping between $17 and $20 billion off of the estimates of their total value.

The near-term future looks both dimmer and brighter at the same time. With over 100,000 people now hospitalized with COVID, according to the COVID Tracking Project, and new cases continuing to rise, according to Johns Hopkins, economic activity in the areas hit hardest is slowing. Worse, as hospitals and ICU beds reach capacity in areas, further restrictions are being imposed by local and state governments. Particularly if federal relief money is not renewed, a real possibility of a second leg to the recession exists. On the brighter side, with two vaccines now ready for approval by the FDA, the end of the fear and overt threat of sickness is in sight, possibly by mid-2021. Americans have stashed away a record amount of cash, and once this is behind us, much of that money is likely to be spent, generating an economic surge that could go well into 2022. Until then, we advise being patient and being cautious.

Until next week, we remain studiously at our duties to serve you and manage your portfolios.

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