
# 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


**December 18, 2020**

## TPWC Market and Economic Update

### The Markets

The S&P 500 Stock Index (SPX) weaved about a bit but finally finished the week at 3709.41, up 1.25%. The rise was widely credited to sustained hope that Congress would finally reach agreement on a bill to provide further relief to the economy in the face of record numbers of COVID-19 infections, hospitalizations, and deaths. The index has risen 14.81% year-to-date and 4.27% in the last month. Leadership in the SPX returned to the few large-cap growth stocks that have dominated the index most of the year as the CRSP US Mid-Cap Value Index rose only 0.35% for the week.

The yield on the U.S. Treasury ten-year note rose 6.088% to 0.947%, once again putting it within striking distance of the elusive 1% per year yield mark. Meanwhile the 90-day T-bill, the other loan benchmark, declined slightly to yield 0.085% on an annualized basis and the yield curve remained steadfastly positive. West Texas Intermediate crude oil (WTI) once more showed more optimism than either stocks or bonds, rising 5.24% to an even $49.00 per barrel as export demand, much of it from China, continues to rise.

### The Economy

The economic news was a rich mixture of short-term bad news and longer-term optimism over the week ending on the 18th. Odds are rising that U.S. nonfarm employment will decline in December. The Labor Department reported that initial claims for unemployment insurance rose to 885,000 in the week ended December 12. That latest increase is a rise of 169,000 over the claims from two weeks ago. On the other hand, housing starts rose 6.2% to 1.547 million in November, a continuing indication that the better off among us are willing to invest in the future despite dire current statistics. The starts were concentrated in multi-family buildings, suggesting that investors consider the job market woes to be temporary.

The Census Bureau reported that U.S. retail and food services sales for November declined 1.1% from October, a reversal of the traditional bounce that the Thanksgiving week and Black Friday sales provide. Despite that less-than-optimal trend, sales were reported up 5.2% from the same week last year, led by online sales, up a whopping 29.2% from 2019. On the other side of the coin, IHS Markit reported that U.S. manufacturing output grew at a solid pace but slower than it has been in three months, as the Index dropped to 56.5 from last month's 56.7, but manufacturing output remained 2.7% below where it was last year at this time, while the services index declined to 55.3 from last month's 58.4. Index numbers above 50 indicate growth. Here as in other aspects of the economy, growth continues but at a slower and slowing rate.

The Federal Reserve, apparently quite concerned about the health of the U.S. economy, effectively pledged to keep short term interest rates near zero and to purchase as much government debt and mortgage securities to keep interest rates ultra-low for as long as was needed until we see a full recovery. The central bank has been buying about $80 billion in Treasuries and $40 billion in mortgage bonds each month since June. It pledged to continue the purchases "over the coming months." Separately, a Wall Street Journal survey of economists indicated that the consensus was that unemployment would fall below 4% and inflation would hit the Fed's goal of 2% by the end of 2023, marking a full recovery.

There are some very practical takeaways from that news. Savings interest rates are going to remain low, very low, and probably below inflation for at least the next couple of years. You may be tempted to succumb to offers of what even a year ago was considered a reasonable rate, but with even a 1.5% or 2% rate will come risk of loss. It is good to remember that the purpose of savings is not to earn interest at a good rate but rather to avoid loss. Another critical nugget is that when interest rates rise, the value of a bond or a portfolio of bonds fall. With interest rates at record lows and a consensus that within the next couple of years they will rise, bonds could be a dangerous place to put savings that you might need before the maturity date of those bonds.

The bottom line this week will sound familiar. In the short term, things could turn unpleasant but with two vaccines now deploying, the outlook is that by mid-2021 enough of us will be vaccinated to begin a jump start of the economy. That jump start will likely be fueled by the record quantities of cash stored up in this pandemic year by households and corporations alike and may well constitute the entry point for the roaring 20s of the 21st century.

Until next week we pledge to keep our interest in serving you and your portfolios high even as interest rates are at record lows.

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

Jacob A. McClure, CIMA®