THE PERSONAL WEALTH COACH®

An SEC Registered Investment Adviser

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TPWC Market and Economic Update

The Markets

For the Christmas week, shortened by a day and a half as the stock market closed at noon on Christmas Eve, the S&P 500 Stock Index (SPX) fell 0.17% to close at 3703.06. The decline was mild, particularly in light of the announcement that the President had vetoed the Defense Appropriations bill and made demands for the combined coronavirus relief and government funding to be substantially changed. The muted reaction by the stock market suggested that traders were of the opinion that the President's demands and veto would have no practical effect. The same ten or so large capitalization growth stocks continued to dominate the SPX, up 14.62% year-to-date. The CRSP Mid-Cap Value Index turned in a small gain of 0.03%, leaving it down almost 1% for the year.

The yield on the U.S. Treasury ten-year note, the bond market benchmark, fell half a percent to yield 0.936%, higher than it has been during much of the pandemic but still less than half the interest yield it had a year ago. With the yield curve remaining positive, if muted, and the ten-year yield now hovering halfway between its lowest recent yield and what would be considered "normal" if not for the pandemic, the bond market appears to be forecasting an iffy near-term and a full recovery not taking place for several years. The price of West Texas Intermediate crude oil (WTI) slipped over 1% to $48.54 but remained well above the break-even $40 price that is critical to the survival of many oil production companies.

The Economy

The economic news in this Christmas week was mostly not good. The Conference Board announced that its index of consumer confidence for December dropped from November's 93.9 to 88.6 in the first two weeks of the month. The survey that generated those numbers indicated that the acceleration in COVID-19 diagnosed infections, hospitalizations, and deaths are substantially depressing the public's estimation of what the future holds. A further factor was the increase in layoffs during the period combined with a decline in the number of job openings.

Confirming the Conference Board's report, retail sales, possibly the prime driving factor in the U.S. economy, fell 1.1% in November according to the Commerce Department, the second month in a row that sales have fallen. In another confirmation of the decelerating economic data, household spending fell for the first time in seven months, declining 0.4% in November. The spending cuts fell across a wide spectrum of goods and services from restaurant meals to big-ticket items like cars and appliances. More, for the third time in the last four months household income fell in November as well, again according to the Commerce Department, falling 1.1%. Finally, in our list of less than pleasant news comes the announcement, U.S. home sales declined 2.5% in November after a five-month run of gains.

In a bit of not-as-bad news, the number of new applications for unemployment insurance fell from 892,000 to 803,000 in the latest weekly report by the Labor Department. While the improvement is welcome, it is still four times the number of weekly layoffs reported prior to the pandemic. Another bright spot appeared in the Commerce Department's report on orders for durable goods at factories across the country as orders rose 0.9% in November. The rise appeared to be primarily from business investment as companies took advantage of low interest rates and seem to be anticipating an increase in consumer spending as vaccination becomes widespread and the pandemic clears.

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After all those declines, it is important to put things in perspective. The average American household income has held up remarkably well through this pandemic and recession so far, largely because of the CARES Act early in the year. Many, if not most households appear to have socked away a good amount of savings, in many cases far more than they had a year ago. The situation is fairly clearly divided as a significant percentage of families are struggling and only avoiding homelessness because of the federal prohibition on evictions if the landlord or mortgage holder is receiving any form of federal guarantee or assistance, but those whose jobs remain intact as well as the growing numbers of retirees are thriving. At the same time, even those with ample income and savings appear to be pulling back on spending in the face of rapidly rising COVID-19 numbers and the potential for a government shutdown and the absence of further federal relief money.

The reported numbers suggest that while the fourth quarter is likely to be one of reduced growth, we are at a tipping point as to whether the U.S. economy shrinks or grows in the first quarter. The President's refusal to sign the Omnibus Bill funding both coronavirus relief and federal government funding could potentially shut down the government just as the existing Congress disbands and the new one is not yet in session. That, combined with his veto of the defense funding bill, could further depress a slowing recovery and give us a second leg of this recession. Only time will tell.

We remain optimistic that in the longer-term, meaning the second half of 2021, we could easily see a recovery that could average as much as a 5% annual growth rate for several years. In the meantime, we hope and pray that the holidays are both joyful and safe for you and your families.

Until next week (and year) we remain alert to serve you and diligently watch over your portfolios.

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