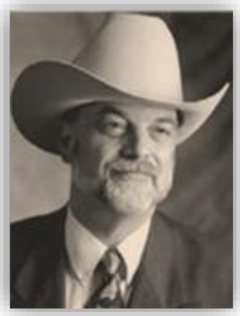

THE PERSONAL WEALTH COACH®

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TPWC Market and Economic Update

The Markets

The S&P 500 Stock Index (SPX) ended the year with a pop at the end of the day that, when combined with its jump on Monday, celebrating the signing of the combination COVID Relief bill and federal funding through September, gave it a gain of a little over 1.17% for the week, closing at 3756.07 a new record high. As they say in the movie business, that was a wrap for 2020, with the SPX up 16.26% for the year. Most of that gain, over 11%, was in the last quarter as traders hoped for a fiscal stimulus package and vaccines were racing for the finish line. The great hope is that in the new year the pandemic will become history and Americans will be left with a record amount of cash to spend. Just as impressive, or perhaps even more so, is the astonishing 67% rise the SPX has recorded since it hit a bottom reading of 2337 on March 23, down almost 34% from its high in February. This could easily go down in history as the shortest bear market on record. At the same time, both the numbers of new retail, amateur investors and margin accounts, in which stocks are bought with borrowed money, hit new records as December drew to a close. Historically, record margin levels and a swarm of new individual investors are followed at some point by market unhappiness. We are not suggesting getting out but being aware that a sudden return to reality could occur at any point.

The yield on the ten-year US Treasury note failed to join the New Year's Eve party, dropping 1.8% to yield 0.919% as the bond market continued to act as if the recovery in loan demand and thereby economic activity would not appear for several years. The good news was that the yield curve continued to be decidedly positive, if still muted, with the ten-year note yield still down a full 1% from the beginning of the year. The West Texas Intermediate crude oil price (WTI) joined in the not particularly upbeat end of year attitude, dropping a quarter of a point to $48.42 about 21% below where it was as 2020 dawned.

The Economy

There were three big events in this normally slow news week between Christmas and New Year's Day: two good and one a bit frightening. The good news was that the United Kingdom, also known as "Great Britain", managed to secure a trade agreement with the European Union even as the deadline for final Brexit was only one day away. That near miraculous treaty saved the UK from plunging into an unknown future, almost certainly with a dramatic drop in both its economy and that of the EU. Such an economic shock coming on the top of event number three (see below) would conceivably have dropped the world back into a second leg of recession.

The second headline event was as much a relief as the first and maybe more so. The President signed the combined COVID relief and federal funding bill. Had he not signed the bill and simply continued to ignore it, the federal government would have shut down, millions of families would have seen their unemployment checks stop, and the eviction forbearance would have expired. Most economists predicted such a failure would have plunged the economy back into recession in short order. The market responded by jumping upward at the beginning of the week and the song "Happy Days are Here Again" could be heard quietly wafting down Wall Street.

The third event was a potential downer. Two new variants of the COVID-19 virus have been identified, one in the UK and the other in South Africa. The variance is that they are about 50% more transmittable than the one we have seen up until now. If the new more contagious versions would just stay somewhere else, we could just read about it and go about our lives. The problem is that we now know at least one of them is spreading in the United States. Unchecked, a 50% increase in the spread of the disease would result in a 50% increase in hospitalizations. According to the Centers for Disease Control (CDC) national hospitalizations are already higher than they were at the previous peak in July and many areas are near or at capacity. An increase in infections, hospitalizations, and deaths could result in more lockdowns such as we have recently seen on both coasts. That could easily be a blow to the economy as they were early in the year. It is now a race between vaccinations and the contagion. Unhappily, the vaccination rate is well behind the federal government's prediction.

Meanwhile house prices have continued to rise as sales number declined. The bottom line is that there are a lot of people trying to get out of the cities and buy a house in the suburbs, far more than are willing to uproot themselves and move in the midst of a pandemic. Additionally, in what is probably a seasonable oddity, jobless claims declined a bit to 787,000 last week. We think that may be just the short week leading up to Christmas dropping the numbers. There is clear evidence that the number of people who are dropping out of the workforce may also be suppressing the figure.

Our advice remains much the same. The near-term future is very uncertain and may have further unpleasant surprises. The longer-term economic probabilities are much better and with the vaccines being distributed, there is sincere hope the second half of 2021 will see a return to something far more like "normal" and a resurgence of economic good times.

Until next week (and next year) we remain hard at work analyzing, answering, reporting, and serving you, our faithful readers and clients. Be safe, only six or so months until this is likely to be (mostly) over.

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