THE PERSONAL WEALTH COACH®

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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

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TPWC Market and Economic Update

The Markets

The S&P 500 Stock Index started off the year with a bang, shooting up an amazing 2.08% for the week to close at 3824.68, rising over 17% from one year ago. The rise for the week and on Friday continued into record territory despite of, or perhaps in some strange way, because of the events occurring in the real economic and political world. In fact, the rise on Friday, taking the index to a new record, was despite the Labor Department's report that the economy *lost* 140,000 jobs in December and the disturbing news of the week. More on that below. The stock market value revival continued as well with the CRSP U.S. Mid-Cap Value Index shedding its laggard reputation and rising 2.83% for the week to close at 2116.80.

The yield on the ten-year U.S. Treasury note not only joined in the party but led the band during the week as it rose an astounding 21.87%, busting through the 1% barrier as if it were not there, to end the week with a yield of 1.120%! The 30-year Treasury bond, not to be outdone by its shorter maturity cousin, jumped up to an annual yield of about 1.87%, possibly signaling the end of record-low mortgage rates. Crude oil obviously got an invitation to the party as well, as West Texas Intermediate soared 8.7% to end the week at $52.73, about where it was a year ago, *before* the pandemic hit!

The Economy

As has happened so often in this most unusual of times, the immediate economic news and the markets' behavior were as if they were in different universes, because they are. The headline economic news was that for the month of December, the Labor Department reported that the U.S. economy ended seven consecutive months of job gains and lost 140,000 jobs. The leading category in the loss was hospitality and leisure, including restaurants and hotels, where nearly 500,000 jobs were cut. That loss was partially offset by gains including retailers staffing up for Christmas, factories, and construction. The December numbers ended a year in which the U.S. economy had nearly 10 million fewer full-time employees than it did at the beginning of the year, a record job loss since records were first kept in 1939. The bottom line for the job losses in December according to Moody's Analytics was that the COVID-19 pandemic is causing record levels of hospitalizations across the country as a new, more contagious variant spreads. If we include those mainly contract workers who have lost their jobs and have stopped looking for work at least temporarily, the U.S. has a total of 15.8 million people who would like to return to work but cannot find a job according to the Labor Department.

So, if things look so bleak, why did the stock, bond, and oil markets throw a party that seemed to celebrate the end of bad times? In a short answer, help appears to be on the way. As the new Congress convened and the President-elect laid out his priorities, it became clear that the joint focus was to be on keeping struggling businesses and families afloat until the vaccines could be distributed, and to accelerate those vaccinations. The announced longer-term strategy was to fund the infrastructure improvements and innovation that has been talked about for a decade or more but on which little has been accomplished. In a nutshell, the markets got excited about the business and economic boost those actions seemed likely to produce. Combine all of that with an absolute record high level of liquid assets in households and businesses, all waiting to be spent as soon as the pandemic is whipped, and the picture is of an economic boom beginning in the second half of the year that well may be one of the biggest in

American history. The future is always uncertain, but even as the darkness seems to be deepening, there is ample evidence that the dawn is near at hand.

In other news, the U.S. trade deficit hit an all-time high in December, which ironically was a good thing as those imported goods were contributing to record retail product sales. At the same time, IHS Markit reported that purchasing managers were indicating that U.S. manufacturers continued a vigorous recovery. Manufactures also reported they are having difficulty finding qualified, skilled workers, suggesting they are approaching capacity. At least some of the money not being spent by consumers in restaurants and on travel appears to be going into buying products.

The bottom line is that we are going through a rough patch, but the cavalry can be seen coming over the hill to our rescue. Be patient, be careful with your health and we can get through this.

A Suggestion
If you don't have a need for income from your IRA and skipped the required minimum distribution (RMD) in 2020 under the provisions of the CARES Act, we suggest you don't get in a rush to take the 2021 RMD. A new relief act is in the works and it may allow deferral for yet another year.

Until next week we remain hard at work serving you and seeking better value and lower costs in your portfolios.

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

Jacob A. McClure, CIMA®