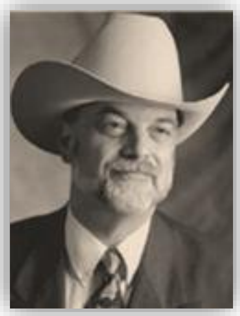

THE PERSONAL WEALTH COACH®

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TPWC Market and Economic Update

The Markets

The collective intellect of the investors and traders who drive the day-to-day value of the S&P 500 Stock Index (SPX) looked at the totality of the data as the week drew to a close and appear to have concluded that things were not quite as rosy as they thought before. The Index promptly declined about one and a half percent before bouncing back slightly then falling again to end the week down 1.48% at 3768.25. That decline still leaves it up just a bit, +0.32% year-to-date, and up over 13% from a year ago. The decline for the week and day came despite JPMorgan reporting a 42% rise in earnings for the quarter and other positive earnings news from the big banks. The news that turned the markets appeared to be a dramatic surge in new unemployment claims and December's reported fall in retail sales. See more below.

The yield on the 10-year U.S. Treasury note marked agreement with the stock market by declining about 2.6% to 1.091% but remained above the 1% mark, a figure it only crossed last week since the pandemic began. Meanwhile the longer-term T-bond yields inched closer to the pre-pandemic levels as the yield curve remained solidly positive, suggesting growing economic optimism for the longer-term. Oil too indicated a slightly muted optimism as West Texas Intermediate crude (WTI) slipped about 1% from last week's high to $52.18, only 11% below where it was a year ago.

The Economy

The unnerving headline for the week ending on January 15 was the Labor Department's report that initial filings for state unemployment insurance jumped to nearly one million. The official, seasonally adjusted figure was 965,000 but without the seasonal adjustment, which is questionable in this unusual environment, the new claims totaled 1,151,015, an increase of 25% from the previous week. The total number of continuing insured claims rose to nearly six million, a rise of almost a half-million.

That ongoing rise in new unemployment claims was reflected in consumer spending. The Labor Department reported that retail sales, a number that normally soars in December, instead declined 0.7%. That already less than delightful news was compounded deeper in the report with the news that control retail sales, which take out the more volatile energy and food categories, dropped 1.9%. That number is considered a reasonable proxy for the critical consumer spending report due out later this month.

The driving force behind the sag in employment and spending should come as no surprise. The seven-day average of COVID-19 hospitalizations nationally is at a new record of 130,340 and the daily death rate is now just under 4,000 according to the COVID Tracking Project. At the same time the daily new diagnosed cases also hit a record at just under 223 thousand. Every diagnosed case equates to a reduction in both income and spending. As more and more people know someone who has died or been hospitalized, the tendency to pull back increases.

The good news is that the vaccines are being produced and distributed so there is an end in sight. The not-so-good news is that the vaccination rate is running behind schedule and is more than a little chaotic in the absence of a central plan for distribution. It appears though that lessons learned and some forming organizational leadership may be turning the corner on that. Moody's Analytics is forecasting that with improved federal and state leadership we could reach "herd immunity", effectively stopping the virus' spread by September. For the first time we are seeing a respected organization estimate when this could be mostly over and a return to normal life begin in earnest.

The economic news was not all doom and gloom. The Federal Reserve reported that U.S. industrial production rose 1.6% in December, the biggest gain since July. More importantly, manufacturing output rose 0.9% for the month, strongly suggesting that manufacturing, possibly the core if not the majority of our economy, is healthy and overcoming the restrictions imposed by the pandemic. The recovery in industrial production leaves us only down 2.8% from where we were before the pandemic, making it a nearly complete recovery. Also, during the week, the Institute for Supply Management (ISM) reported that in December American factory output grew at the fastest rate in more than two years.

The bottom line remains much the same. In the short-term we should be prepared for some unpleasant economic news, but the end of this crisis is on the horizon as vaccinations rise. All indications are that on the other side of this pandemic a combination of deferred desires and ample cash will generate an exciting economic boom that well may be the opening scene for a decade of historic growth and innovation.

Until next week, we remain whole heartedly in the service of you and your portfolios.

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