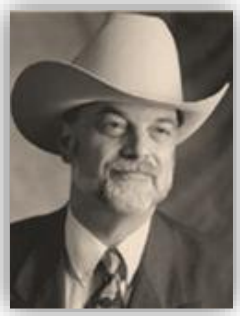

THE PERSONAL WEALTH COACH®

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

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TPWC Market and Economic Update

The Markets

Despite a week with more scary news about the pandemic and the labor situation in the U.S., the S&P 500 Stock Index (SPX) rose 1.94% to close at 3841.47. The week's gain put the index up 2.27% in the three weeks since the beginning of the year and nearly 9.5% since the election. As we have often said, markets don't particularly care who gets elected but like to see the election over with. The CRSP US Mid-Cap Value Index sagged 0.31% but remains ahead of the broad market, having risen 3.49% year-to-date. That indicates that in the last week the ten or so super-large growth stocks that led the SPX most of last year are again surging. Even the commentators who were on the fence late last year are now voicing concerns that speculators are driving the S&P 500 to unrealistic heights.

The yield on the benchmark ten-year U.S. Treasury note did not join the S&P 500's soar toward the sky but sagged about 3% to end the week yielding 1.086%, still holding above the 1% barrier but drifting downward in volatile trading. Moody's Analytics reported that large influxes of foreign investment are pouring into the Treasury market here, tending to lower rates, while domestic holders of Treasury securities are selling to get cash for stock investing, pushing interest rates upward. Year-to-date, the yield on the 10-year note has risen over 18%, signaling that bond investors are optimistic about economic growth. West Texas Intermediate crude oil (WTI) agreed with the bond market, sagging just a bit to $51.97 but remained up about 7.4% for 2021.

The Economy

The lead economic news for the week was the Labor Department's announcement that there were 960,668 new claims for unemployment insurance in the U.S. for the week ending January 16. The seasonally adjusted number was better at 900,000, but is suspect in this unusual situation, and both were a bit lower than the previous week, but much higher than we saw in October and November. Anecdotal evidence continues to point to the pandemic as the culprit. Moody's is now forecasting a drop to 5.8% unemployment by the end of 2021 and 4.2% by mid 2022.

Despite the high number of layoffs in the economy, IHS Markit announced on Friday that their flash index of manufacturing activity rose to 59.1, the highest reading in more than a decade, while the service sector index rose to 57.5. Numbers above 50 indicate growth while readings below 50 suggest contraction. While the total activity in both sectors remains well below where it was a year ago, business recovery appears to be in full stride in the U.S. as manufacturers reported a "renewed and solid rise" in new export orders in January while service providers were seeing slowing orders as the number of COVID-19 cases surged.

In another bright spot, sales of existing homes rose to the highest level since 2006 while U.S. home construction starts also rose in December to their best level since the housing bubble in 2006. The difference this time around is that bank lending practices are tight and mortgage interest rates remain at historical lows. Residential housing starts rose 5.8% to nearly 140,000 in December, an annualized rate of 1.67 million. Meanwhile, applications to build new homes increased 4.5% for the month, another high dating back to 2006. Builders did cite a dramatic rise in the cost of materials and a critical shortage of qualified, skilled workers, like licensed electricians and plumbers, as a potential bottleneck to future growth. They also noted that buyers seem to be ready with substantial down payments and desirous of purchasing larger homes with larger lots than in the past. Sales of existing homes are up an astounding 22% from a year ago to an annualized rate of 6.76 million as the average new 30-year fixed mortgage rate was

2.77%, down from 3.6% a year ago. The median existing-home price rose 12.9% in December from a year earlier to about $300,000, a new record.

Moody's Analytics Back-to-Normal Index continues to hover around 80, indicating that the overall U.S. economy remains down about 20% from where it was as the pandemic began. The good news is that we seem to have adapted to the surging infection rates and hospitalizations far better than has Europe where the numbers suggest the EU and UK are sliding back into recession. The not-so-good news is that the COVID variant that already dominates in Europe is here and growing. In the UK the death rate from the new, more infectious variant is now being reported to be 30% to 40% higher than before. The race is on to see if we can get enough people vaccinated before the new mutation hits us economically and if our behavior can hold it at bay pending those vaccinations. Only time will tell.

Until next week, we remain diligently at the business of finding good investments and serving our clients to the best of our ability!

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

Jacob A. McClure, CIMA®