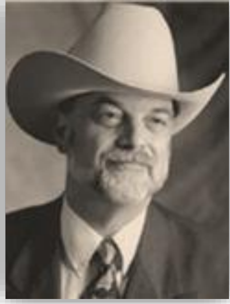

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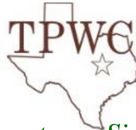
Jeffrey W McClure CFP®  *Jacob A McClure* CIMA®

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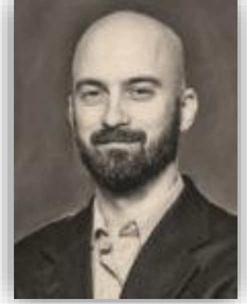

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TPWC Market and Economic Update

The Markets

Our old friend, the often-volatile S&P 500 Stock Index (SPX) turned in a bit of a dismal week, declining about 3.3% to close at 3714.2 under a deluge of bad economic news from 2020. First, the 2020 U.S. GDP was reported by the Commerce Department to have declined 3.5%, then came another zinger from the Bureau of Economic Analysis with the official notification that in December, for the second month in a row the U.S. consumer spending was down even as prices rose 0.4%, suggesting a return of weak but real inflation pressure. That puts the SPX at a minus 1.11% for the month but still up a whopping 16% since the end of October. The only real surprise was that the decline was so small. More on the economic reports below.

We don't want to totally discount the speculative mania around GameStop, the relatively small-time retail game seller, or AMC, the theater company, but both are headline grabbing stories that have little effect on the broad market and are symptomatic of late bull market craziness. The only significant impact on the larger world is that some big-time hedge funds lost a *lot* of money as they had to buy their way out of short positions and, as a result had to sell stocks in the real stock market which probably contributed to the week's decline. This has happened before. Those of us who can remember back to the late 1990s recall that companies with no earnings or plan to ever be profitable soared to astronomical heights before crashing back to earth on a very common basis. Amateur investors in a feeding frenzy tend to do such things.

The benchmark 10-year U.S. Treasury note yield agreed on the negative uncertainty by declining less than one percent to 1.064%, holding well above the symbolic 1% line. The usually prescient Treasury yield curve remained decidedly optimistic as the curve steepened with the 30-year T-bond yielding 1.827%, up 11.35% for January. Oil demurred, as the price of West Texas Intermediate crude rose just under a half percent for the week to $52.18, up nearly 8% for January and an astounding 46% over the last three months.

The Economy

The big news, even if widely expected, was that the United States gross domestic product (GDP) fell 3.5% for the calendar year 2020 despite a 1% rise in the fourth quarter. That was the largest decline in U.S. GDP since 1946 as we demobilized from World War II. On top of that, nonfarm payrolls in the fourth quarter were down 6% from where they were in 2019, three times the decline we saw in 2008 in the worst of the "great recession." The difference between the loss of jobs and GDP decline was striking. Common sense suggests that if we lost 6% of the labor force a 3.5% loss in national production just doesn't add up, but it happened. The difference illustrates where the jobs were primarily lost. It was the relatively low productivity, lower wage workers who were eliminated even as manufacturing charged ahead with increased automation, as did many non-manufacturing industries.

Even as the overall economy appeared to stall out late in the fourth quarter, purchases of durable goods were up 12% from a year earlier. Recreational vehicle sales jumped 21% and housing investment rose 14% as homeowners went on a home improvement surge. In a mirror image of the residential investment number, spending on new commercial structures sunk 14%. Unfortunately, spending in the services sector, where employees with less formal education tend to work, was a stunning 33% lower in the fourth quarter than in the year before.

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As an interesting side note, even as December's consumer spending sagged in a month where consumers normally splurge, average personal income rose 0.6% according to the Labor Department. The average could be misleading though. Skilled, experienced or educated workers were reported in short supply across the country, generating jumps in wages and overtime for those areas. Meanwhile, lower-skilled workers were still being laid off in January at a rate between 800,000 and 900,000 per week.

There is both good news and bad news on the pandemic front. The good news is that the record number of hospitalizations we saw early in the month appears to have declined in the last two weeks but is still elevated for the month to the highest level we have seen. At the same time, the daily number of newly reported cases has begun to decline as well, although like the hospitalizations, is still very elevated. The bad news is that the U.S. total deaths in January from Covid-19 through the 27th was 83,249, an incomplete total that has already broken December's record 77,487 according to data from Johns Hopkins.

In short, this appears to be in the rough spot we have been forecasting. How long this bumpy time will last continues to depend on our behavior and how quickly we can get the lion's share of our population vaccinated. The good news is that with consumers and corporations still flush with cash, it looks more and more like 2021 will be a record-breaking year for GDP growth and job creation once we have the pandemic whipped. Have patience. Keep watching. Be careful.

Until next week, we remain hard at work trying to make sense of it all and a better future for you and your portfolios in the midst of this quite unusual time.

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M.S. Personal Financial Planning

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