THE PERSONAL WEALTH COACH®

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TPWC Market and Economic Update

The Markets

The U.S. stock market notched one of its best weeks ever, with the S&P 500 Stock Index (SPX) rising a whopping 4.64% to 3886.43, a new record high. That rise, unlike many others, was relatively smooth and steady all week and seemed to be based on a combination of rising vaccination rates, falling new COVID-19 cases, and a clearer view that Congress would pass a substantial new pandemic relief bill. The SPX is now back in positive territory year-to-date, up 3.47% since the beginning of the year and up nearly 9% since September's high point and nearly 11% since the election. The small-stock amateur speculative battle over GameStop continued with the stock still up over 200% for the year but down 80% for the week. Fortunately, GameStop is not part of the SPX and has had negligible effect on the rest of the market.

As it is wont to do, the yield on the ten-year U.S. Treasury note joined in the party, rising 8.73% for the week to 1.171%. The usually predictive U.S. Treasury yield curve pronounced its approval as the yield of the 30-year Treasury bond soared to 1.977%, just shy of the psychologically important 2% level. The 10-year T-note yield is now up 33% in the three months since early November and now is only down 27% from its level before the pandemic. The rise in crude oil prices was, like the stock market, smooth and steady all week with West Texas Intermediate (WTI) up well over 9% to $57.00 per barrel.

The Economy

The economic news for the week was a combination of good and bad news with the headlines often obscuring the underlying reality. U.S. employers added 49,000 jobs in January according to the Labor Department, a bit of an offset to the quarter-million jobs lost in December. That is certainly good news, but a deeper dive into the data reveals that without an 81 thousand gain in temporary hires, the economy would have lost jobs again. In a separate survey but the same report the Labor Department announced the official unemployment rate, after seasonal adjustments, fell to 6.3%. That headline too looked less pleasant further down the report where the fall in official unemployment from the previous 6.7% was credited almost completely to people dropping out of the labor force. The bottom line is that we appear to still have about 10 million regular wage earners who are looking for work and can't find it. To put that in perspective, the economy shed about 22.36 million jobs in March and April 2020 and we have recovered about half-way.

In some unexpectedly good news, The Commerce Department reported that factory orders rose 1.1% in December after rising 1.3% in November even as some manufacturers were laying off workers. Meanwhile the U.S. Bureau of Labor Statics announced that labor productivity decreased 1.2% in the fourth quarter of 2020 but was 2.5% higher than in the last quarter of 2019. The bright side to that report helps explain the apparent contradiction in manufacturing. Productivity rose at a 3% annualized rate in manufacturing as more automation was implemented even as wages rose for the remaining workers. Manufacturing output for the quarter increased 11.2% while hours worked increased 8%.

A major shift in our national economic focus has emerged in speeches from the Biden administration and the Federal Reserve in the last few weeks. Over the past decade, the focus has been on increasing corporate earnings and GDP and more recently on shrinking the balance of trade deficit. Before that, much of the focus has been on

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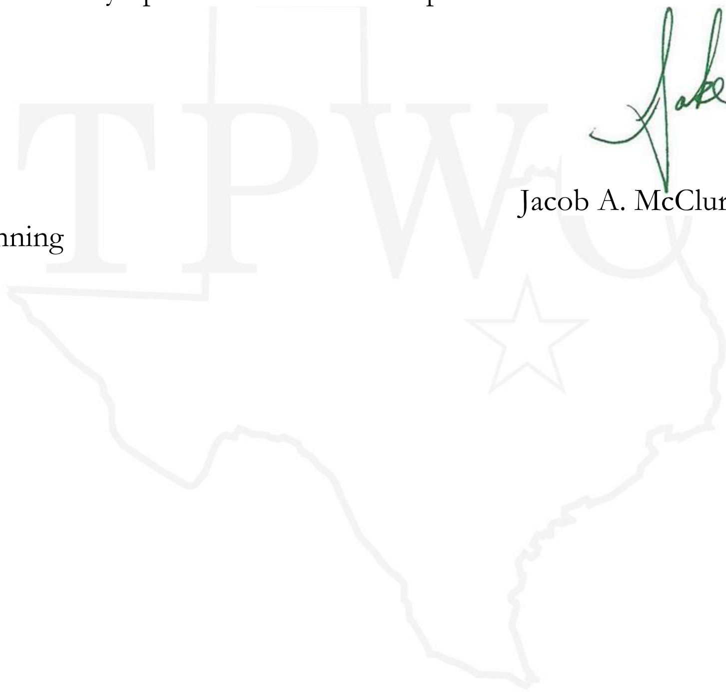
things like fighting inflation or balancing the budget, home ownership, or fighting poverty. The new focus is now clearly and simply, "full employment." The underlying rationale is that full employment was once feared as it would theoretically generate high inflation. Now the thought is that globalization has short-circuited inflation and if we want a robust economy, having the maximum number of people employed full-time is the answer.

Finally, to the 800-pound gorilla driving this economic downturn. We have written before that pandemics tend to come in three waves with the third being the worst. The newly identified case data strongly suggests that we have passed the peak of the third wave with cases still well above what we saw in the first and second waves but trending downward. The same is true of U.S. hospitalizations now down to about 89,000 from a peak of 128,000 early in January according to the COVID Tracking Project. That is still well above the previous peaks in April and July of about 60,000 but the trend is in the right direction. Unfortunately, hospitalizations are still rising in one state: Texas. The one national indicator that is still breaking records is deaths for COVID-19, with the fourteen-day moving average holding at about 5,200 per day, probably a result of the record high new case rate in late December and hospitalization rate in early January.

Until next week we remain cautiously optimistic and full of hope for a better future.



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