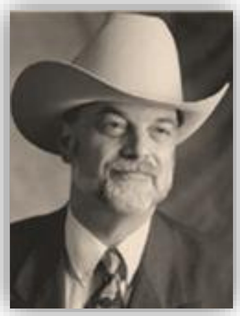

THE PERSONAL WEALTH COACH®

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TPWC Market and Economic Update

The Markets

After zigzagging up and down all week, the S&P 500 Stock Index (SPX) closed out the week up 1.25% at 3934.83, up 4.76% year-to-date and 16% higher than it was a year ago. Importantly to those of us watching how the smaller companies that trade on their intrinsic value are doing as a measure of market health, the CRSP Mid Cap Value Index rose 2.10% for the week and is now up 7.28% year-to-date. That measure of how those smaller, value-oriented companies are faring is an indication that the stock market may be balancing out its recent tendency to dramatically over-value the ten or so largest tech-oriented growth stocks. Still, the market remains tilted toward those large cap growth stocks as the CRSP Index is only up 5.25% since this time last year.

Even as some degree of sanity returned to the SPX, evidence of irrational exuberance surged in other areas. A prime example can be seen in Dogecoin, a digital currency that was started as a joke, cannot be used to buy anything, and has no real value. Mark Cuban compared Dogecoin to buying lottery tickets and over the next 12 hours its price went up 50%. The GameStop saga continues as the stock that was trading at a reasonable $18 before the craze, then soared to over $347 has now fallen to around $51 per share, leaving investors who bought it for hundreds of dollars per share holding the bag.

The yield on the benchmark ten-year U.S. Treasury note again agreed with the stock market as it rose 3.33% to 1.210% on optimism that spending, and the economy will rise significantly in the next few years. The thirty-year Treasury yield, an indicator of a much longer future perspective, continued to hover just below 2%, anchoring the yield curve in a relatively steep slope, suggesting the bond market sees good times coming. West Texas Intermediate crude oil (WTI) ended the week up 4.8% at $59.73 on news that U.S. supplies of stored oil are declining as Americans take to the road in earnest. WTI remains down over 14% from its pre-pandemic levels but has been gaining ground fast, suggesting that, at least in terms of energy usage, America is well on the road to economic recovery.

The Economy

The big economic news this week was an announcement from the COVID Tracking Project that U.S. Covid-19 hospitalizations had fallen to the lowest level since November 16 even as newly reported daily cases remained below 100,000 per day. On Wednesday, total hospitalizations fell to 76,797 although the lagging daily death toll remained stubbornly high at 3,364, raising the total U.S. death toll to 471,000. Despite the good news on hospitalizations and new cases, the CDC urged caution as 37 states, including Texas, have now reported the more contagious and dangerous variant first seen in the UK to be present in their populations. Still, the reported decline in hospitalizations and new cases is a cause for optimism. Full economic recovery depends on thoroughly suppressing the contagion and incidence of the disease.

The Moody's-CNN Back to Normal Index inched backwards to 80.5 and has been sliding backward slowly since October. U.S. economic activity remains stuck at about 4/5 of where it was a year ago, just before the pandemic. According to a *Wall Street Journal* report, a consensus appears to be developing among major corporations that Labor Day will mark the end of the work from home time, and by extension, the pandemic, for many Americans.

Earlier return to normal work condition dates tended to be centered in July but the slower than expected vaccination rollout has given corporate decision makers pause.

The Labor Department reported that the Consumer Price Index (CPI), the prime marker for inflation in the U.S., remained muted as January prices for all items rose just 1.4% from a year ago. The outlier items were used cars and trucks where the average price rose 10% and the price of gasoline, down 8.7%. That gasoline-related support for low inflation may have come to an end though. Last week, according to Moody's, the average price of gasoline equaled and then exceeded year-ago prices. As vaccinations increase and summer travel becomes more practical, expect to see gasoline prices rise more.

In an unexpected event, U.S. automobile and light truck production is being held up by a computer chip shortage. GM announced it would continue to manufacture vehicles and store them pending arrival of the critical chips that make their cars and trucks run but was forced to extend shutdowns at three plants because of the chip shortage.

In a nutshell, the underlying cause of our woes, Covid-19, seems to be growing less rapidly with fewer hospitalizations but we still have a long way to go before we return to full recovery. Both optimism and patience seem to be in order.

Until next week, we remain on duty and making every effort to plan and allocate your portfolios toward achieving your individual goals!

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