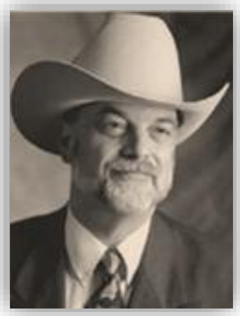

THE PERSONAL WEALTH COACH®

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TPWC Market and Economic Update

The Markets

The S&P 500 Stock Index (SPX), our preferred if sometimes irrational indicator of the U.S. stock market, soared to new record highs on Tuesday, then started sagging as the big tech stocks started to fall and in the end lost 0.71% for the week, ending Friday at 3906.71. It remains up just over 4% year-to-date and nearly 10% for the trailing three months. In the near future the one-year returns are going to look unrealistically good because we are now one-year from when the market began to take the pandemic seriously, so we are going to leave that number out. We do feel comfortable telling you that three years ago the SPX stood at 2701, and as such, now has a three-year average annual return of about 13% per year. We also are happy to report that the foundations of the SPX, represented by the CRSP US Mid-Cap Value Index rose nearly 1% for the week and is now ahead 8.3% year-to-date, indicating that a healthy rotation from Large-Cap Growth into Mid-Cap Value appears to be continuing.

The yield on the 10-year US Treasury note soared nearly 11% for the week to 1.340% signaling a growing optimism that economic recovery is not far ahead. The Treasury yield curve echoed that sentiment as it steepened, with the 30-year US T-Bond finally crossing the 2% barrier to close at 2.134%, slightly above where it was a year ago just before the pandemic became apparent. West Texas Intermediate crude oil (WTI) contracts sagged just over 1% on news the Saudi's were going to open the oil taps, dropping to $59.09 per barrel.

The Economy

In a strange bifurcation that now has persisted for several months, the IHS Markit purchasing managers index (PMI) for services rose to 58.9 for February on a scale where 50 marks the delineation between growth and contraction, its best number in nearly six years, while the manufacturing PMI slipped to 57.7 from January's 60.5, but all are high numbers. At the same time as both business and service activity were surging, new unemployment insurance claims continue to rise, hitting a seasonally adjusted 861,000 for the week of February 13. When we throw in the Pandemic Unemployment Assistance claims for those not eligible for state programs, the total rises well above one million! New weekly unemployment claims typically ran in the 200,000 range before the pandemic.

The confusion comes from the fact that the HIS Markit survey tallies responses only from operating businesses while in many cases the new unemployment claims come from businesses that are throwing in the towel. The businesses that are surviving seem to generally be doing quite well while those that are not doing well are failing or have failed. Overall, more than 18 million workers are still collecting unemployment benefits and that number is staying stubbornly high. Note that to collect those benefits, workers have to be actively seeking employment and able to document it. The end result is that any industry that requires face to face interaction with customers is hurting as are its, commonly former, employees. This condition is likely to remain in place until we put this pandemic behind us.

In another odd statistic, according to the Commerce Department, retail sales rose by a seasonally adjusted 5.3% in January from a month earlier. The rise was credited to the receipt of stimulus checks. That welcome rise in consumer spending followed three months of sales decline that was alarming to say the least. It also marks a real possibility of significant GDP growth in the first quarter of 2021 as consumer spending makes up about two-thirds of the U.S. economic output. Those with the means to do so went on a spending splurge in furniture and electronics but surprisingly, they also substantially increased spending at bars and restaurants.

Meanwhile, the U.S. Bureau of Labor Statistics reported that prices for U.S. imports rose 1.4% in January, with the rise mainly in imported fuel prices, up 4.2% in one month after rising 8.2% in December. Still, if we take out the fuel price rise, prices were still up nearly 1% in a month. While year-over-year inflation is still only running at about a 1.4% rate, there are signs that we may be in for a short-term spike in the near future. The culprit appears to be shipping. Not only are container ships backed up at west coast ports, but the railroads appear to be running pretty much at capacity and trucks are largely the same. The issue is compounded by dock workers, train crews, and truck drivers sick or in quarantine from COVID. With the overload, shipping costs are soaring.

The silver lining is that new COVID cases diagnosed over the last week in the U.S. dropped to 68,488, a great improvement over the weekly 272,000 we saw at the beginning of the year. Finally, too, the reported deaths per day have declined from nearly 4,200 at the beginning of the year to this week's 2,463. We, hopefully, have turned the corner.

The bottom line remains the same. We are still in the rough patch economically, but the snow is melting, and the sun is out. Spring is coming. Be patient and be careful and we may see a better everything in a few months.

Until next week we remain dutifully at our respective posts, despite snow, cold, electric outages, or the dark of night.

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