THE PERSONAL WEALTH COACH®

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TPWC Market and Economic Update

The Markets

Our old familiar, if sometimes not particularly accurate, indicator, the S&P 500 Stock Index (SPX) had a rough week as February's trading days ran out. The SPX declined 2.45% after falling 0.71% last week to close at 3811.15. That decline came in a week where the Index flirted with record highs on Wednesday as its cousin, the Dow Jones Industrial Average did set a new record, only to get the jitters on Thursday as a sell-off occurred in the bond market. As we have warned, the declines were led by the big tech companies that have led this bull run. The week and month close leaves the SPX still up 1.47% year-to-date. At the base of the Index, the CRSP US Mid-Cap Value Index fell 1.09% and remains up over 7% this year.

The real market excitement for the week was in the bond market where the yield on the 10-year U.S. Treasury note soared to above 1.55% Thursday. As interest rates (yields) rise the underlying market price for the bond or note declines. That means that there was a sell-off in the bond markets. The 10-year U.S. T-note ended the week yielding 1.415%, up 5.6% for the week after rising nearly 11% the week before. In a reversal of the last year's trend, the yield on the 30-year Treasury Bond rose to 2.3% and was higher than it was at this time last year. The yield curve continues to steepen, suggesting vigorous economic activity ahead. Joining in the good-times-are-a'coming party, West Texas Intermediate crude oil (WTI) jumped 4.44% to $61.66 per barrel. That rise puts the price of oil up over 35% in the past three months as demand appears to be recovering faster than supply.

The Economy

The headline economic news for the week was that the Labor Department announced the number of workers applying for new unemployment benefits fell by 111,000 to 730,000. As new layoffs have been stubbornly stuck near 900,000 for several months, the new lower number is a relief, if it holds. For anyone who missed it, Texas, with the second largest population in the Union, had a bit of an administrative slowdown last week and when the late numbers are tallied, things may be a little different. 730,000, although a welcome respite, is still more than three times the pre-pandemic level of about 200,000 per week.

Accompanying, and perhaps validating the decline in new jobless claims was the news from the Commerce Department that U.S. household income rose 10% in January. The rise was entirely the result of last year's stimulus bill that paid out $600 per person to lower income households. Without that government infusion, the average household income would have declined, and spending would have likely dropped with income. Instead, we saw a 2.4% rise in spending, the first gain in three months. While much of the spending went to goods, and particularly on long-term goods, spending on services rose too for the first time since October.

Even as layoffs continue at a rate higher than we have seen since 1982, there is evidence of a resurgence in the jobs market as U.S. employers added 49,000 net jobs in January, a trend that appears to be growing into February. Soaring housing demand has accelerated hiring by construction companies and warehouse workers are in high demand. The chokepoints are that even a forklift driver needs a certification to be hired and that takes time and money being spent by the person to be employable while a restaurant worker can start with no training.

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That soaring housing demand is being reflected in an average increase in the price of similar residences over the last year by 10.4% according to the S&P CoreLogic Case-Shiller National Home Price Index. Sales of previously owned homes rose to the highest level since the housing boom of 2006 as the available supply of homes for sale dropped by 23% from December 2019.

In short, there is a shortage of homes for sale driven in part by a shortage of qualified workers to build homes. The same situation is occurring in warehousing and transport of goods. Demand has risen faster than expected and is encountering a qualified worker shortage. Meanwhile, layoffs are hitting automobile assembly plants because of a shortage of computer chips. We are living in a very different economic world than we knew a year ago and more change is likely to occur in the next few months. The pandemic has changed our lifestyles and they are unlikely to revert to what they were before. One thing we see that appears to be most predictable is that the consumers that make up about two thirds of our GDP have more in savings than at any time since such things have been measured and when the threat recedes, they are very likely to spend a lot of money. Economists are nearly unanimous in predicting that GDP change will shift from the -3.5% we saw in 2020 to something like a +9.5% in 2021. It is looking a lot like spring is on the way.

Until next week we remain dedicated to providing you with the best quality, fiduciary portfolio management, investment advice, and financial planning.

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