THE PERSONAL WEALTH COACH®

An SEC Registered Investment Adviser

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TPWC Market and Economic Update

The Markets

The old, trusty S&P 500 Stock Index (SPX) soared and slumped like a kite during the week as March came on the scene but wound up rising a meager 0.81% to close at 3841.94. That leaves the Index up 2.29% year-to-date but down 1.15% from a month ago. Those small moves over time belie the frenetic headlines and market swings during the week as traders either ran in fear or doubled down with greed as interest rates bobbed around. The retreating seems to have mainly occurred in the overheated large-cap growth tech shares while the normally boring mid-cap value side of the SPX rose 2.78% to 2262.40, up over 10% year-to-date (CRSPMIV1). We see the gradual move toward a realistic price in the growth side of the Index as a healthy sign.

Speaking of interest rate rises, the yield on the benchmark 10-year U.S. Treasury note soared nearly 11% for the week to 1.567% putting it up over 70% year-to-date. At the beginning of the year, the T-note was yielding 0.91% and it was that sudden increase that spooked the stock market as stock traders assumed that bond traders knew something they didn't know about future inflation. When the stock traders remembered that as recently as the end of 2018, the 10-yr. T-note was yielding 3.28% with no sign of serious inflation, stock prices promptly recovered. The price of West Texas Intermediate crude oil (WTI) ignored the inflation scare and roared ahead to $66.32, up 7.56% for the week to the delight of the good folks in the oil patch. WTI is now up 37% year-to-date as growth in demand continues to rise faster than production. Oil prices are now higher now than they were in 2019, another signal that the global economy is rebounding.

The Economy

The headline economic news for the week ending March 5 was that employment ticked up a bit in February as the devastation from this pandemic-induced economic slump gradually abates. According to the folks at the Labor Department, the official unemployment percentage declined marginally from 6.3% last month to 6.2% in February. Employers added about 379,000 workers, but the total official unemployed ranks remain around ten million, or roughly twice the number we had before the onset of COVID-19. The difference appears mainly in the short-term unemployed in the leisure and hospitality industries with the longer-term and permanent unemployed numbers remaining constant. Another factor in the reduced official rate is that the total persons in the workforce has declined nearly 2% in the last year and there are about 6.9 million workers who would like to work but have given up looking and are not in the official numbers. The numbers are marginally better, but we still have a long way to go to return to a healthy employment situation. There are still a lot of companies down or out in the services side of the economy.

Meanwhile, the high demand for homes combined with the rising loan demand pushed the average 30-year mortgage rate above 3% for the first time since July according to Freddie Mac. Over the last six months Americans have seen the lowest mortgage rates since official records have been kept. The Fed has pledged to hold interest rates down for the next couple of years, but the pressures are building.

The ISM Nonmanufacturing Index, which measures the growth rate for the services side of the U.S. economy slipped from January's 58.7 to 55.3 for February but still remained comfortably above the 50-mark that delineates growth from contraction. Representing the other side of the economy, the ISM Manufacturing Index hit 60.8, up from January's 58.7. Manufacturing activity was centered in commercial trucks with an emphasis on the big rigs, but production hit the wall as once more a shortage of specialized computer chips was the limiting factor. Even as factories went all-out to meet the demand for conventional 18-wheelers, General Motors appears to be planning to build a second battery factory in the U.S., doubling its investment in batteries for future electric vehicles.

The contrast in the two sides of our economy was starkly outlined as the Labor Department reported that while U.S. manufacturing productivity rose 5% in the fourth quarter of 2020 as output rose 13% while hours worked was up only 7.6%, total worker productivity though was down 4.2% as the services sector worked more hours with less output. We are seeing automation and worker effectiveness soar in the manufacturing industries while restaurants, hotels, resorts, and other service industries struggle to survive.

As we continue to see declining new COVID infections, hospitalizations, and deaths, and a slowly increasing vaccination rate, hope is rising that we may have turned the corner. If we can avoid letting our guard down, spring may just be at hand both metaphorically and physically!

Until next week, we remain your faithful servants,

Jeffrey W. McClure CFP®
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