THE PERSONAL WEALTH COACH®

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TPWC Market and Economic Update

The Markets

The S&P 500 Stock Index (SPX) soared 2.64% closing the week ending March 12 at 3943.34. That rise hid the threatened plunge on Monday followed by a new record high on Thursday. Rather than a simple rise in the SPX, now up nearly 5% year-to-date, the 2021 index increase is notable for a reversal of fortune. So far this year, the Russell 1000 Growth Index, comprised of large capitalization growth stocks, is up a meager 0.4%. Our preferred value indicator, the CRSP U.S. Mid-Cap Value Index rose 4.33% to close at 2360.31 for the week and is now up just under 15% year-to-date. In short, the U.S. stock market is in the midst of the largest internal reversal we have seen since 2001, and unlike 2001, it is doing it while still rising. Historically, reversions from growth to value stocks have occurred in bear markets, but this event is clearly different. Companies with good, actual current earnings, dividends, and book assets are gaining while stocks whose price was based on hoped-for dreams struggle.

The stock market's internal reversal was at least in part credited to the surge in the yield on the ten-year U.S. Treasury note since the beginning of the year. The yield stood at about 0.92% as the year began and has risen an astonishing 77% in ten weeks to this week's close at 1.625%. Generally speaking, higher interest rates are good for most value-based corporations, like banks, and hurts companies that will need to borrow large amounts of capital to keep up their high growth rate. Meanwhile, short-term rates remained near zero, leaving the yield curve even steeper than before, forecasting rapid economic growth in the year to 18 months ahead. In contrast, European 10-year notes generally remained in negative to near zero territory. West-Texas Intermediate crude oil (WTI) elected to sit out this week's party, declining just over 1% to $65.58 per barrel, a good enough price to bring the oil companies back from their near-death experience as demand continued to ramp up.

The Economy

The U.S. economy is fundamentally based on domestic consumers having sufficient funds and the opportunity to purchase the goods and services offered by retail firms. Most of that source of funds comes from employment and in that area, we seem to be stuck, at least for the moment. On March 11, the Labor Department released the January Job Openings and Labor Turnover report. It revealed that there were about 6.9 million open jobs, almost exactly the same number as before the pandemic and employers hired 5.3 million new workers but at the same time there were 5.3 million separations: a stalemate in the job market. Another indicator of that stalemate was the Department's four-week average of new unemployment insurance claims 759,000, over three times the number of pre-pandemic layoffs.

The good news is that the passage of the latest pandemic relief package by Congress could provide the shot-in-the-arm needed to break the logjam. If indeed the recipients of the latest stimulus checks spend most of the money and the vaccination rate continues to rise, there is hope that hiring, particularly in the retail services sector will pick up and fewer layoffs will be necessary. Once the tipping point is reached, the theory is that more hiring will generate more free cash flow which will generate more spending and hiring and so on. Economists are nearly unanimous that the recovery after the great recession of 2008-2009 was delayed by a shortage of money. Stay tuned to see if this different approach works better. Economist surveyed by the *Wall Street Journal* have raised their average estimate for 2021 U.S. GDP growth to nearly 6%, which would be the fastest since the Reagan economic recovery of 1983 if it happens. They also are forecasting a 2.48% inflation rate this year and an average 514,000 net monthly jobs growth over the next four quarters. In short, the consensus is that we will see an economic revival arrive soon that will be the biggest since the recovery from the 1982 recession.

Even though inflation fears spooked the markets on Monday and the year over year Consumer Price Index was up 1.7%, if we exclude the volatile food and fuel elements, prices only rose 1.3% through February, according to the Labor Department. The Treasury Inflation Protected yield curve further supported the idea that inflation is not a big problem as while it is forecasting a short burst above 2%, longer maturities suggest it will then fall back to 2% or less over the five-to-ten-year timeframe.

In summary, all the hallmarks of a healthy reversal of market leaders plus an historic rise in economic growth are evident in the leading economic indicators. The future is always uncertain, but it continues to appear that not only are things getting better, but the U.S. is on track to have the largest real economic growth on the planet for the next couple of years, quite possibly surpassing even that of China!

Until next week, we remain on duty in a sincere attempt to provide you with quality, fiduciary investment management and advice.

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