THE PERSONAL WEALTH COACH®

An SEC Registered Investment Adviser

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TPWC Market and Economic Update

The Markets

The old familiar S&P 500 Stock Index (SPX), our favorite if somewhat flawed U.S. stock market indicator, was clearly in a state of indecision for the week ending on the 19th. On Wednesday it broke all previous records to hit 3983.87 but then sagged a hundred points on Thursday. It finally closed out the week at 3913.10, down 0.77% for the week. It did hang on to its 4% year-to-date gain but is now lower than it was in mid-February. The CRSP mid-cap value index joined in the decline, but by less, dropping 0.52% to 2347.93 leaving it up 14.25% year-to-date. The reported culprit was the end of the Fed's one-year exception to the rule that banks had to hold more reserve cash as their deposits increased. That leaves the major banks with less money to pay out in dividends and share buybacks.

The other blamed event in the stock market stall was that the yield on the ten-year U.S. Treasury note rose to 1.726%, up a whopping 88% from where it stood at the beginning of the year. At the same time the 30-year T-bond yield rose to nearly 2.5%. Historically, those are still low numbers, but it was the dramatic change more than the levels that has some traders spooked. In effect, the return to normal interest rates is proceeding faster than some analysts had expected as both the ten and thirty-year rates are now higher than they were a year ago. On a macroeconomic level, that is good news, but the unexpected is always unsettling for stock traders. Crude oil prices joined in the slide as West Texas Intermediate (WTI) fell 6.35% to $61.40 but held on to a gain of 27% for the year.

The Economy

Moody's Back-to-Normal Index jumped to 86 this week, driven by increased airline flight bookings, restaurant, and hotel spending. As a point of reference, it was down in the 60s about six months ago and when it hits 100, things should be back to normal. The pattern of increased spending on things like restaurants was clearly regional. The further south a city lay in the United States, the better the spending rates were recovering.

Offsetting that good news was the announcement from the Labor Department that in the week ending 13 Mar, 770,000 new claims for state unemployment insurance were filed in the U.S., a 45,000 rise from last week. Total claims, including contract workers, pushed the number to above 1 million. It is clear that there are still a lot of businesses that were hanging on by their metaphorical fingernails that are finally throwing in the towel. A mitigating factor is that a large portion of the increase came from Texas where last month's ice and snowstorm may have pushed businesses over the edge. Even with that caveat, it is clear that the economic impact of the COVID-19 pandemic is far from over. As a point of reference, the worst weekly claims number before this pandemic was 695,000, during the "great recession" and even with the opening up of most retail restrictions, we seem to be having a very difficult time getting the weekly layoffs down to that number.

Meanwhile, Americans, on average, are still flush with cash and they are spending at least some of it. The problem is that they are mainly spending it on manufactured items rather than on services. The result is that here in the midst of an economy running at about 86% of where it was a bit over a year ago, logistics are jammed across the country. Container ships are having to wait weeks to dock and unload on the west coast, trucks and railroad cars are running at full capacity with long backlogs, and distribution centers are operating full-out. The good news is that anecdotal reports suggest that many Americans are making travel plans and fully intend to return to eating out as soon as they feel safe, a major shift from a couple of months ago when Americans seemed to despair of this ever being over. The backside to that surge is that there is already evidence of a shortage of available workers to meet the coming demand.

House prices continued to rise and that won't likely be offset by new homes being built. The FHFA average house price rose 11.4% in 2020, a record increase. Building materials prices have hit all-time records and continue to soar as demand dramatically outpaces supply. Throw in the transportation bottlenecks and new house construction prices are likely to continue to soar. Meanwhile, the NAR reports the number of homes available for sale are hovering near all-time lows.

Every indicator we follow, including COVID infection rates, is signaling we are on the way to a full recovery and even a boom ahead. The Federal Reserve is pointedly announcing it will not cut the expansion off until at least the end of 2023 or 2024, and even the proposed tax increases being discussed to pay for some of what is being spent and infrastructure improvements are apparently targeted at household incomes above $400,000. That is not to say that the unexpected event or development might not foul things up, but we are optimistic. All the elements are in place for a record economic expansion.

Until next week, we continue to work at getting better at managing your portfolios, providing investment advice, and responding to your needs and requests.

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