THE PERSONAL WEALTH COACH®

An SEC Registered Investment Adviser

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TPWC Market and Economic Update

The Markets

The S&P 500 Stock Index (SPX) continued its seemingly relentless march toward the sky for the week ending on the 26th, climbing 1.57% to 3974.54. It is now up 5.82% so far this year, and an astounding 78% from its bottom last spring. Very notably, the NASDAQ Composite, an index that works well as a proxy for tech stocks, *lost* 0.6% for the week as the CRSP Mid-Cap Value Index rose a like amount and is now up 14.41% year-to-date. The majority of the appreciation in the SPX for the week was in large-cap value stocks, focused in banks and energy shares. Despite the speculative frenzy we saw earlier in the year, the stock market continues to gradually reorient itself away from high-priced momentum stocks toward lower priced shares with solid earnings and underlying intrinsic value. In our opinion this is a healthy transformation.

The yield on the 10-year U.S. Treasury note fell 2.61% to 1.681% for the week as the Core Personal Consumption Expenditure Price Index (Core PCE) rose only 0.1% for the month and was only up 1.4% from a year ago, putting inflation fears to rest for the moment. The Treasury yield curve remains steep, suggesting economic expansion for the next one-to-two-year period. The 10-year rate may have slipped a bit from last week, but it is still up 83% from the end of last year, a rise that historically would have sapped the stock market, but this year seems to be an exception. West Texas Intermediate crude oil (WTI) followed along with interest rates as it fell one percent to $60.81 but remained up 26% year to date, and an unbelievable 178% from one year ago.

The Economy

In a bit of welcome, not-so-bad news, new unemployment insurance state filings dropped to 684,000 for the week ending March 19. While that number is still huge, it is finally below 700,000 for the first time in a year. In a separate announcement, the Labor Department stated the unemployment rate remained constant at 6.2% for February. While both numbers are elevated, given the weather event of that month, it was not worse, and that is good.

The Commerce Department announced Friday that U.S. household spending fell 1% in February as household income also fell 7.1% after rising 10.1% in January. Take that sobering news with a grain of salt though as most of the spending decline was attributed to the winter storm that took much of the southern states offline for about a week. Anecdotal information suggested that March is already seeing a return to vigorous economic expansion. Restaurant bookings by Open Table, for example, are exceeding those for the same period in 2019 for Texas. Real personal spending is showing a marked coordination with the receipt of stimulus checks so expect to see both income and spending to rise substantially in March.

To put this in perspective, durable goods spending was still up 16% from January 2020, before the pandemic. On the other side of the coin, the savings rate declined from January's 20% of income to a still eye-popping 13.6% in February. The reality is that Americans are sitting on a lot of cash. The total estimated household savings and checking balance is now up to $14 trillion, needless to say, an all-time record level. Add to that the fact that much of the three stimulus checks' value has been used to pay down higher interest debts associated with credit cards and paycheck loans. The evidence is there that once Americans perceive that the economic threat of COVID-19 is behind us, people will start to spend that money. As economists predicted, about one third of the cash from the

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government checks was used to pay down debt, about a third was spent, and the remainder was socked away in savings positions.

In a leading indicator that only an economist could love, Canadian Pacific Railway agreed to buy Kansas City Southern for about $25 billion. The merger of the two railroad companies would provide for the first time a unified system crossing North America from north to south, from deep inside Canada, across the Midwest U.S. to the heart and ports of Mexico. It is one thing for economists to suggest that an economic boom is coming, but when a company drops a $25 billion bet on commerce rising to record heights in the near future it brings that suggestion into a high probability.

Speaking of leading indicators, the Conference Board's Index of Leading Economic Indicators rose again in February, despite the weather and the lagging effect of the pandemic. The Conference Board is now forecasting a 5.5% rise in U.S. GDP for 2021. In an even more upbeat prediction, Moody's Economics is predicting GDP will climb 6.5%.

The recovery continues with strong signs that the future will hold much better economic news.

Until next week be assured, we are hard at work selecting investments and designing portfolios around you and your specific needs and desires!

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