THE PERSONAL WEALTH COACH®

An SEC Registered Investment Adviser

Jeffrey W McClure CFP® *Jacob A McClure* CIMA®

PO Box 1029 / 918 N. Main Street
Salado, TX 76571

(254) 947-1111
(800) 914-7526

Serving Investors Since 1982
www.tpwc.com

jeff@tpwc.com

jake@tpwc.com

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TPWC Market and Economic Update

The Markets

In a not uncommon, "bad news is good news" event, a disappointing jobs report from the Labor Department sent the S&P 500 Stock Index (SPX) soaring to a new record on Friday of 4232.60, up 1.23% for the week and 12.69% year-to-date. The reported cause behind the rise was that with jobs expanding at a lower-than-expected rate, the Federal Reserve would continue to hold interest rates down. That sentiment was reinforced as Chairman Powel warned that a resurgence of COVID infections was a real threat to the economy as new and more contagious variants spread. In the smaller, value-oriented side of the SPX, the CRSP US Value Index rose 2.77% for the week and is now up almost 22% for 2021, continuing the mid-cap value asset class recent outperformance.

As fears of incipient inflation continued to fade and buyers swooped in from around the globe to bid at the U.S. Treasury auctions, the ten-year U.S. Treasury note yield slipped to 1.575%, back where it was at the beginning of March but well within its recent trading range. The yield curve remained quite steep, forecasting better times ahead. WTI crude oil futures climbed 2.11% to $64.81 for June, reflecting continuing strong demand for fuels.

The Economy

The consensus view among traders and economists was that the U.S. would report it had added about a million new jobs in April, so the Labor Department's announcement that the net number of new jobs was only 266,000 came as a real surprise. Potentially even more surprising was the news that the official unemployment rate rose to 6.1% from March's 6.0%. That monthly number, released on Friday had been preceded on Thursday by news that weekly jobless claims had dropped by 92,000 to 498,000, the lowest number since the pandemic began, increasing the confusion.

A careful look at the numbers revealed some possible reasons for the reduction in job growth. First, the April jobs report was for the whole month of April, a time when jobless claims remained stubbornly high. Temporary workers employed declined by 111,000 and were not generally included in jobless claims. The computer chip shortage caused several auto manufactures to shut down lines, generating temporary job losses of about 18,000. Oddly, retail jobs fell by 15,000 and healthcare by 4,000. Meanwhile, for those still working, average wages climbed as did hours worked, primarily in restaurants and hospitality businesses. Still, the new job creation low number remains largely a mystery as the total number of employed persons in the U.S. economy remains about 8.2 million below where it was in January 2020. There is some evidence that in some families, one parent, previously employed, is remaining home to take care of children as school and day care centers are not yet open across the country. Others have reported on surveys that they are hesitant to work in a customer-facing environment out of fear of COVID-19. The bottom line is that we will have to wait another month to see if this was an anomaly or a trend.

In a related bit of good news, the Labor Department also announced nonfarm business sector labor productivity rose at a whopping annual rate of 5.4% in the first quarter. Output increased at an 8.4% rate while hours worked only increased by 2.9%. A bright spot on the report was that hourly compensation rose in the quarter at a 5.1% rate, but unit labor costs actually declined 0.3%, meaning that the higher wages do not portend an increase in inflation as worker productivity is rising much faster than wages.

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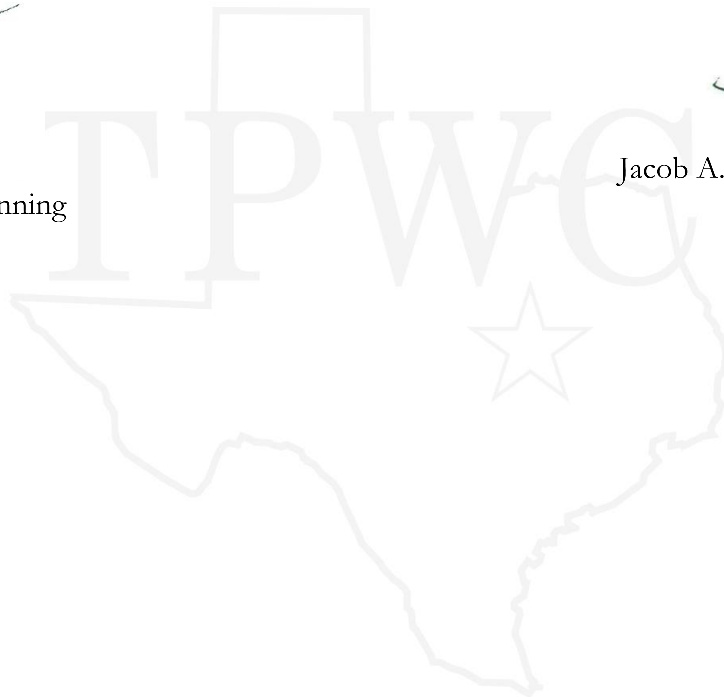
Despite the chip shortages and rising raw material costs, the ISM Manufacturing Purchase Managers Index, held at a very strong level of 60.7 on a scale where numbers above 50 indicate future growth. Across the board, manufacturers are operating at nearly full capacity with growing backlogs of orders. Meanwhile, auto manufacturers are abandoning 50 years of "just-in-time" parts supply, a practice we taught to the Japanese following WWII and then adopted across the U.S. in the decades that followed. The pandemic-related stops and surges in supply and demand revealed just how complex and relatively fragile our supply chains really are.

Despite the less than stellar jobs report, the economy continues to recover and grow. Every indicator points to GDP surpassing where we were in the last quarter of 2019 sometime in this quarter. Notably, if we do so, it will be with about eight million fewer workers producing more than we did before. We still seem to be in the sweet spot for continued expansion

Until next week, we remain your faithful and obedient servants,



Jeffrey W. McClure CFP®
M.S. Personal Financial Planning

Jacob A. McClure, CIMA®

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