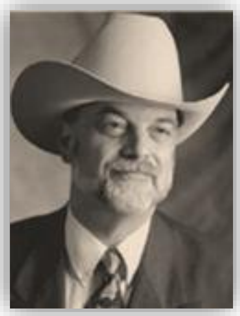

# THE PERSONAL WEALTH COACH®


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

Despite all the alarmist headlines about a market decline underway, the S&P 500 Stock Index (SPX) closed out the week ending May 21 at 4155.86, down only 0.43% for the week and a mere 1.81% from its record high close of 4282.60 on May 7. The Index is up 10.64% year-to-date. The reported consensus on Wall Street was that the market was looking for something to be afraid of. First, it was a fear the Federal Reserve would prematurely raise interest rates, then when the minutes of the last Fed meeting allayed that fear, the market slumped because of a selloff in crypto currencies. Walmart, Amazon, and Target all came in with exceptional revenue and earnings reports for the first quarter as well as positive guidance for the rest of the year, indicators of more growth to come. The CRSP Mid-Cap Value Index slid 0.93% leaving it up 19.74% for the year and down 1.75% from its top two weeks ago.

The rate on the 10-year U.S. Treasury note where one would expect so see the first evidence of any inflation threat, actually declined 1.1% to yield 1.612% at the end of the week. Traders reported that they, like their stock-trading comrades, are confused as to what the future holds but with each small rise in yield, interest-hungry buyers swoop in and drive the rates back down. The yield curve remains steep. Analysts who read the Treasury tea leaves posit that the Treasury market is forecasting about 2.25% average annual inflation over the next five years, very close to what the Federal Reserve Board has targeted as its goal. The price of West Texas Intermediate crude oil (WTI) slipped down about 2.6% to $63.78, well within its recent trading range and suggesting the economic recovery will continue.

### The Economy

As the U.S. economic recovery continues, there is an abundance of noise and fleeting fears of this and that, which, by the way, is quite healthy. One issue is clear and a steadily growing concern. Despite the fact that we have about 8 million workers unemployed we also have about the same number of unfilled job openings, an all-time record. The worker shortage is one of the leading concerns of business managers across the country. They consistently report an abundance of customers, plenty of demand, but are having a hard time getting products to fill their shelves, or to put on tables, and an even harder time finding people to do the work to supply those customers.

It would be easy to blame generous unemployment benefits for the worker shortage, but only about 25% of the unemployed workers are drawing those benefits. More, the same labor shortage in the face of high unemployed numbers is evident in other countries. In Australia, where unemployment benefits were cut in March, there are 40% more unfilled jobs than before the pandemic, and in England, as the pubs open up, hours are being limited by the inability to hire staff. Surveys suggest that fear of contracting COVID combined with a critical shortage of childcare may account for some of the discrepancy. McDonalds, Amazon, and Walmart have responded with increased hourly wages and in some cases, hiring bonuses, and that seems to be working. The minimum wage is being raised by the marketplace.

If you are worried that this expansion may stumble and as it does, take down the stock market, the Conference Board's Leading Economic Index (LEI) may put your mind at ease. As their report states, "While U.S. employment and production have not recovered to their pre-pandemic levels yet, the U.S. LEI suggests the economy's upward trend should continue and growth may even accelerate in the near term." The Board now forecasts real GDP growth at an annualized rate of 6 to 9 percent in the second quarter and 6.4 percent for 2021. The LEI is not infallible, but in the decades of its existence, it has proven to be one of the most reliable indicators of where our economy is in the business cycle of recovery-expansion-contraction.

Housing starts sagged a bit in April and the reports from builders are that the cost of lumber has simply gone to the point where it is often unprofitable to build even at the house prices we are seeing. One local builder noted that a piece of lumber that cost him $7 a year ago is now priced at $51. Initial unemployment claims hit a new pandemic low of 444,000, still twice the pre-pandemic norm, but trending nicely downward.

The bottom line remains mostly unchanged. Both the U.S. and global economies are experiencing some glitches and bumps as demand suddenly ramped up in the last month or so, but a lot of focus and money is going into the means to meet that demand. Expect more bumps as we do an economic restart in a few months that took us years to accomplish following the great recession of 2008-2009. Meanwhile, the markets are going to fret and worry, but that is good. Be patient, keep some powder dry and hang on for the ride!

Until next week, rest assured that we are on guard and working hard to deliver value and service in support of your financial goals.

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

Jacob A. McClure, CIMA®