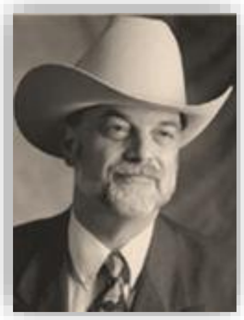

THE PERSONAL WEALTH COACH®

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

The benchmark S&P 500 Stock Index (SPX) turned in another optimistic week, rising 1.67% to 4352.34 with most of that gain occurring in the first two days of the new quarter and half of this year. The Index is now up a robust 15.87% year to date, and a whopping 95% from its low in March 2020. A combination of continued strong economic reports and diminishing fear of Federal Reserve premature interest rate rises seemed to be the catalysts this week, but there was at least one other strong driver. Serious investors, as opposed to the flashy but transient speculators, want a return on their investment that is likely to be there a decade or so in the future, and is real after taxes and inflation. Very simply, even with the SPX trading at a price that is about twenty times annual expected earnings (profits), that ratio equates to about an expected 5% earnings yield on the stocks in the index. Even the dividend (cash payout) yield on the SPX of 1.33% sounds good if you have looked at bond or bank interest rates. There is a market theory that says the SPX is underpriced if the earnings yield is higher than the yield on the ten-year Treasury note. So far this year, a record 87% of SPX companies have reported earnings that beat estimates. The CRSP Mid-Cap Value Index slipped sideways for the week but remained up 19.37% for the year.

Speaking of the yield on the ten-year T-note, it finished the week at 1.437%. There are several ways to interpret the several-month sag in T-note yield we have seen over the last couple of months as it has slid from a high of 1.73% in March. Primarily, the decline is attributable to a lot of purchases of the Treasury notes. The more buying pressure an interest-bearing security sees, the higher its price goes and the lower the resulting interest rate falls. That buying pressure combined with a reduced issuance of the ten-year note by the Treasury could be increasing prices. The second interpretation is related to the first, in that lowered U.S. inflation expectations create an increased demand for a guaranteed, fixed-interest security. The third interpretation, probably far out of date, is that lower T-note interest rates reflect a less optimistic view of the economic future. It is good to put that last one in perspective. The ten-year T-note yield is up a stunning 56% year-to-date. If an increased T-note yield is a forecast of the economic future, buckle your seat belts! Our other carefully followed benchmark, the price of West Texas Intermediate crude oil (WTI), rose 1.45% to $75.07, bad news for gas prices but generally considered a predictor of good economic growth.

The Economy

As is common, jobs dominated the economic news for the week. The Labor Department reported the U.S. economy added a net 850,000 new employees in the month of June. At the same time, a separate survey of households resulted in the official unemployment rate rising from May's 5.8% to 5.9% for June. For reference, we added 269,000 jobs in April and 583,000 jobs in May. In an economy driven by consumer spending, and the vast, vast, majority of that spending the result of wages, it is hard to see anything but good news in that report. Still, the economy has about 6.8 million fewer employed persons now than it did in February of 2020. As you might guess if you have gone out lately, leisure and hospitality were the biggest sources of jobs. Average hourly earnings rose 3.6% for the month too. In another data point of good news on the jobs front, new applications for unemployment insurance fell last week by 51,000 to 364,000, a new low since the pandemic hit. Companies are reporting they needed to raise wages to get workers back in the jobs but also that many lower-paid workers have moved on to higher paying jobs in the home product delivery industry.

The Institute for Supply Management (ISM) reported that its manufacturing index fell from 61.2 to 60.6, both numbers are near record highs on a scale where numbers above 50 indicate growth. The manufacturing sector of our economy appears to have hit the stops for its maximum growth rate as it faces a shortage of raw materials, parts, and trained labor. A large part of the reduction in its torrid growth rate acceleration appears to have come from the notorious computer chip shortages shutting down assembly lines at major auto manufacturers across the country. Dealers are reporting record low inventories of new cars available. Ironically, despite the chip-induced reduction in production, car and light truck sales are reported to be higher, year-to-date than they were in 2019.

The bottom line remains similar. Our economy is operating at or near full capacity as it bumps up against probably temporary shortages. There is still plenty of room to grow but the growing pains will likely be with us well into next year. That does not mean that a market correction is out of the question. A bull market that has doubled in value without a major hiccup is a rare thing, so hang in there and be prepared for a dip.

Until next week we remain dutifully at work seeking to improve the quality of your economic life and the health of your investment portfolios.

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

Jacob A. McClure, CIMA®