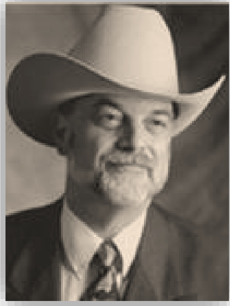

THE PERSONAL WEALTH COACH®

An SEC Registered Investment Adviser

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July 9, 2021

TPWC Market and Economic Update

The Markets

The S&P 500 Stock Index (SPX), our preferred indicator of the state of the U.S. stock market, spooked on Thursday, the 8th, for apparently no particularly good reason, at least none that the reporters of the Wall Street Journal (WSJ) could discern. There was an interesting quote in their article on the decline, "What you are seeing… is risk aversion as uncertainty and fear start to take over." From our perspective that is good news. If there is a healthy dose of fear out there, all is probably well. That sentiment bore fruit on Friday morning as the Index recovered and went on to close out the week at 4369.55, up only 0.40%, but still a new record. That leaves the SPX up a mind-boggling 16.33%, year-to-date. The CRSP Mid-Cap Value Index closed at 2442.74, down 0.28% for the week but up just over 19% this year.

One of the several possible reasons cited for Thursday's stock market spook was the declining yield on the 10-year U.S. Treasury note, which did drop to 1.258% on Thursday before recovering to 1.360% by the end of the week. Admittedly, the T-note yield is down 21% from its high at the beginning of April, but it remains up an astonishing 48% in 2021. Two factors are in play, and neither bode ill for the economy. First, the Treasury is issuing very little in new notes, limiting the supply, as it draws from its roughly one trillion-dollar reserves held at the Federal Reserve. Second, as China cracks down on its tech companies and the rest of the world is facing a new wave of COVID infection, the good old U.S. Treasury note is in high demand. Interest rates on the note fall as the buying pressure mounts, and thus have fallen as far more buyers want to buy than sellers want to sell. Despite the fall in rates, the yield curve remains healthily steep, forecasting better times ahead. West Texas Intermediate crude oil (WTI) fell 0.49% for the week to $74.70 but is still up over 54% in 2021.

The Economy

In a bit of esoteric news that could only excite an economist or a congressional staffer, the Federal Reserve stated in its semiannual report to congress that shortages and labor issues were holding back the economy from what would otherwise be a faster rate of growth. Normally in a recovery fueled by the demand snapback we have seen in 2021, we would be seeing wages start to spiral up and the economy hitting full institutional capacity at this point. Again, in more normal times, that would mean the Fed would start raising interest rates to choke off the over speeding recovery before it overheated. The congressional report, in essence, stated that the Fed would not need to intervene because "temporary" supply and labor issues were doing the job quite nicely. As a bit of background, the Fed is notorious for crushing recoveries and bull markets by raising interest rates too soon and investors are justifiably frightened of that happening again. In the report the Fed addressed the jump in year-over-year inflation to 3.9% as "transitory" and likely to dissipate within a year or two.

That brings up the issue of the labor shortage that is slowing the recovery. Apparently, there are a multitude of reasons that the about 9.2 million people looking for jobs are not filling the about 9.2 million job openings. It is easiest to identify the issues in the low end of the income scale, the leisure and hospitality industry, where there is an abundance of very visible openings. Two different surveys found most job seekers who were working in the leisure and hospitality industry before the pandemic are now looking for a different line of work. More, most higher income job seekers have become used to working remotely and want to keep on doing so. Compounding the jobs

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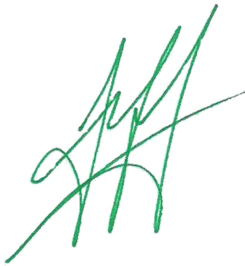
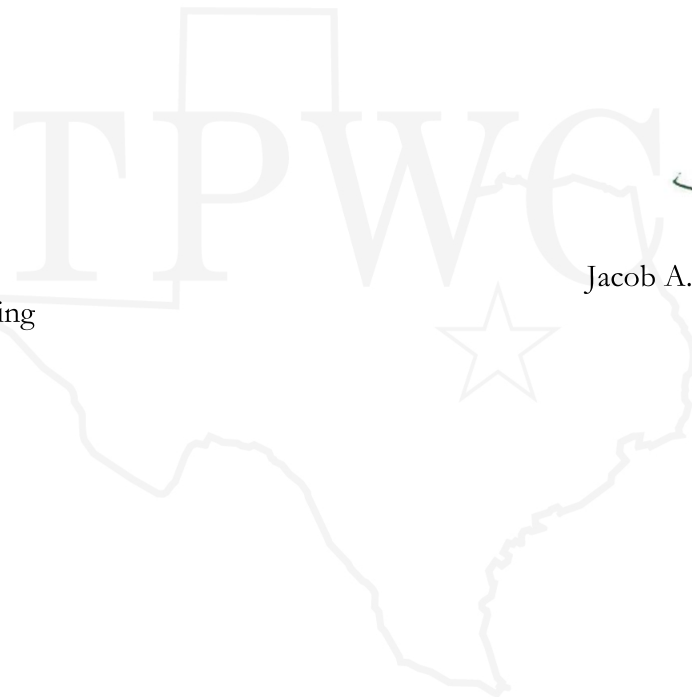
issue is the price of housing. Home prices and rents have risen to the point that in many cases, lower income workers cannot afford to live near where the jobs are open. One of the trends we have spotted anecdotally is that the rising cost of housing has forced a lot of people to relocate and leave the jobs they once filled. In short, the labor side of our economy is in turmoil. The one glimmer of good news is that we have been there before and historically, in a couple of years or so, these things tend to work themselves out. Meanwhile, employers are forced to do more with fewer employers and productivity is rising.

In a bit of good news, there is a consensus that the U.S. GDP growth is running ahead of where it would have been at this point without the pandemic and is likely to be 6.4% for 2021. At the same time, the trends in Asia are declining as new waves of COVID hit largely unvaccinated populations. Ironically, the countries that did the best economically early in the pandemic are hurting now, while here in the U.S. we took it on the chin early on but are leading the world out of the slump.

Until next week, we and our team remain your obedient servants, striving to provide you with the best advice, portfolio management, and service possible.





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