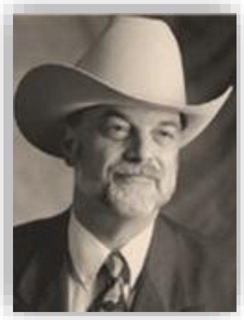

THE PERSONAL WEALTH COACH®

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

Our chosen stock market indicator, the S&P 500 Stock Index (SPX) started out the week with a 1.6% plunge that reportedly was stymied as many young individual investors rushed in to "buy the dip," halting what looked initially like a stampede out of stocks and into bonds. The reported cause was the surge in COVID infections and hospitalizations as the Delta variant of the virus spreads rapidly among the unvaccinated. By Tuesday morning officials were announcing that there were no new lockdowns planned and the market started a rebound. Through the week the market was driven steadily higher as earnings reports came in and so far about 85% of the SPX members reporting are soundly beating expectations both for the second quarter and in their forward guidance for the rest of the year. By the closing bell on July 23, the SPX was up 1.96%, closing at 4411.79, a new record high. The Index is now up 17.46% this year. Notably, the Dow Jones Industrial Average crossed another round figure as it closed above 35000 for the first time. The CRSP US Mid-Cap Value Index joined in, rising 1.16% to 2415.18, up 17.67% for the year.

The yield on the benchmark 10-year U.S. Treasury note fell another 1.16% to 1.279% by the end of the week. Its yield is now down nearly 20% in the last three months as both domestic and international investors opted for the safety of the backing of the U.S. Treasury. Several factors are driving the yield down, not the least of which is the pandemic resurgence overseas, creating a flight to safety and, not coincidently driving the value of the U.S. Dollar Index up 3.3% so far this year. The price of West Texas Intermediate crude oil (WTI) fell less than 1% to $72.08 after sagging early in the week on the same pandemic fears that stalled stocks. Later in the week as domestic fuel demand continued to climb, the price recovered to its recent range between $70 and $75.

The Economy

The headline economic news for the week was that COVID infections and hospitalizations are now rising again on a national scale as the more contagious Delta variant spreads rapidly. The cold fact is that the increase in infections is primarily in rural areas where the vaccination rate is low. Whether we like it or not, the economic impact is thereby likely to be minimal. More, many of the primary infection areas are in states where the governors have pledged there will be no more lockdowns. The threat remains that this fourth wave of the pandemic could worsen, but the risk is remote that it will have a serious negative effect on the economy. We have the distinct advantage of having the highest vaccination rate of any large, developed economic entity. The reverse is true in much of the rest of the world where vaccination rates are low, and the vaccines used are often much less effective.

In what initially appeared to be a mystery move, new unemployment applications rose by 51,000 for the week to 419,000. Digging into the data revealed that it was that old culprit, the computer chip shortage, creating layoffs in auto and truck manufacturing that did the deed. At the same time in what appeared to be a counterintuitive report, the total number of persons receiving unemployment compensation dropped by 1.3 million to 12.6 million for the week ending July 3, the lowest number since the pandemic began. Despite the rise in claims, all the anecdotal indicators point to a healthy, growing number of people working. One notable feature of the labor market is that the minimum wage has effectively risen to $15 per hour, driven by demand rather than the government. The increased low-end labor cost will tend to push up consumer prices for things like eating out and a host of other services but at the same time increases the spending power of lower wage earners, potentially giving the economy a boost.

In other news, the National Bureau of Economic Research (NBER) the official judge of when recessions begin and end, announced that the recent one began in March and ended in April last year, making it both one of the more severe and at the same time the shortest recession in the past couple of centuries. Even if you count recessions, as we do, from the previous peak GDP to full recovery, this was the quickest on record. Freddie Mac reported Thursday that the average 30-year fixed mortgage rate was 2.78%, so if you missed refinancing last winter, you have another opportunity to lock in an absurdly low interest rate.

The bottom line continues to be much the same. U.S. economic growth likely was at a double-digit annualized rate in the second quarter and continues to drive along, hampered by supply bottlenecks, manufacturing limitations, and labor shortages. Those hindrances are a sort of blessing in that they are restraining spending and moderating growth to a manageable level. The consumer still has an abundance of cash and the desire to spend it and that will drive the U.S. economic engine well into and possibly through 2022. Corporate earnings continue to rise faster than the broad economy. There are no storm clouds in sight, but for contrarians like us, that is a bit worrisome.

Until next week, we remain at our keyboards (except Jake who is on vacation) working for Truth, Justice, and the American Way, or something like that.

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

Jacob A. McClure, CIMA®