

jeff@tpwc.com

THE PERSONAL WEALTH COACH[®]

An SEC Registered Investment Adviser

Jeffrey W McClure CFP[®]



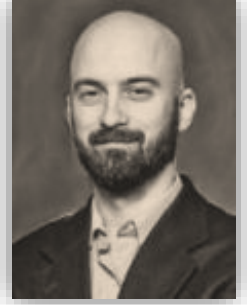
Jacob A McClure CIMA[®]

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

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

Serving Investors Since 1982

www.tpwc.com



jake@tpwc.com

August 20, 2021

TPWC Market and Economic Update

The Markets

The S&P 500 Stock Index (SPX) finished out the week on a positive note, rising nearly 1% on Friday, but it was not enough to offset the disturbing news associated with the resurgence in COVID-19 cases across the country and the accompanying reports that businesses were seeing slowing orders and activity in the face of employee illnesses. The SPX fell 0.59% for the week to close at 4441.67 after hitting a new record high on Monday. It remains up a very substantial 18.25% year-to-date. The CRSP Mid Cap Value Index dropped 1.81% for the week at 2453.21 but still leads its older, bigger cousin year-to-date with a 19.55% gain.

The yield on the 10-year U.S. Treasury note fell to 1.261% as more money sought a safe haven and the Treasury issued relatively little debt in the face of the debt ceiling expiration at the end of last month. The increasing flow of money into the U.S. to buy Treasury securities caused the dollar to rise to heights not seen in several months. West Texas Intermediate crude oil sank 8.36% to \$62.25 on growing inventories, caused by a slowdown in gas and diesel demand combined with the rising dollar, which buys more oil per dollar, thus decreasing the price.

The Economy

One headline economic news item for the week of August 15-20 was that even though spending at bars and restaurants rose 1.7% in July, overall retail sales dropped 1.1% from June. Of course, auto sales contributed to the decline as the pesky chip shortage continued to limit the supply of new cars and trucks, but even in late July, the COVID Delta variant was slowing things down. Still, retail sales for the month were well above the pre-pandemic numbers. Anecdotal data suggest that we may get a bigger decline in the next few months, but nothing like the economic swoon we saw early this year. The other headline news was that the Federal Reserve Board was seriously discussing tamping down their bond purchases on the open market by the end of this year or early in 2022, which is likely to create an increase in longer term interest rates.

Those, though, were not the important thing that came out in the week. The big news was the estimation of Chinese GDP growth and wealth numbers issued by Credit Suisse. To put this in perspective, in the second quarter of 2020, the Chinese economy contracted a whopping 6.5% while the U.S. economy grew slightly. In the year since, the U.S. economy grew 12.2% while the Chinese economy grew 7.9%. Considering that the Chinese started out 6.5 points behind, that is a huge difference. Moody's estimates that U.S. economic growth will continue to outpace China's for five consecutive quarters. More, there is evidence that the Chinese economy is not recovering even as fast as was expected. The Delta variant appears to be hitting them hard as are floods. Beneath the obvious causes, there are hints that the central government crackdown on bigger domestic corporations and home-grown billionaires may be hindering general growth across the board.


We have spoken with people who fear the Chinese economy will overtake the U.S. to become the world's largest and in doing so, will provide the means for China to dominate the world militarily. Yes, it is likely that by sometime around 2030, their GDP will equal or surpass that of the United States, but that may only be a temporary condition. At about the point where economists are seeing the Chinese and American economies hitting about the same GDP level, China's GDP growth is likely to have slowed to about that of the U.S. or potentially slower. The Chinese

Information contained herein has been obtained from sources believed to be reliable but is not warranted as to accuracy or completeness. Past performance is no guarantee of future returns. For tax or legal issues consult with a qualified tax advisor or attorney. Investments when sold may be at a higher or lower price than when purchased. Refer to your custodial account statements for securities holdings and values.

workforce is aging rapidly, and most estimates suggest it is already starting to shrink. The most important factor though is not GDP, but wealth. The net wealth of China, as of June was estimated by Credit Suisse to be \$74.9 trillion, which sounds like a lot, and it is. Here is the key though, according to the Federal Reserve, the net worth (assets minus debts) of households and nonprofits alone in the United States was \$136.9 trillion. Critically, American's wealth is and has been growing faster than China's. It is the wealth of nations that counts, not the GDP. It is our wealth that enables us to project our power around the world and defend ourselves. There is a lot more to this, and we hope to discuss it further on the radio/internet.

The bottom line as we see it this week is that the Delta variant is very likely to cause a speed bump in the economic expansion, but households and corporations are still sitting on record amounts of cash earning next to nothing. Once the COVID and logistics restraints are behind us, we continue to anticipate record levels of growth ahead that may well go on for years.

Until next week, we remain your faithful servants, analysts, and fiduciary portfolio managers, always searching for a better way to serve you and add value to your portfolios.



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



Jacob A. McClure, CIMA®

