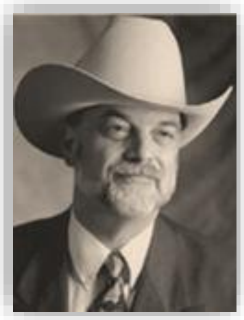

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September 3, 2021

TPWC Market and Economic Update

The Markets

Our preferred market barometer, the S&P 500 Stock Index (SPX) frenetically shot up and down for the week that ended August and saw the beginning of September. As it often does after zig-zagging all week, it ended with only a bit of a change, up 0.58% at 4535.43, another record high with no fanfare. The week's close marks a 20.75% gain this year and puts the Index up 32.35% from a year ago. This week's record comes against the backdrop of a surprisingly poor hiring report and a host of other tidbits of bad news. The "wall of worry" that bull markets are reputed to climb appears to be alive and well. Our other followed Index, the CRSP US Mid Cap Value Index closed at 2512.43, down 0.08% for the week, but up 22.48% year-to-date.

In one of its not uncommon counterintuitive moves, the yield on the U.S. Treasury 10-year note rose to 1.314%, up 0.84% from last week, continuing its rise from what appears to be a bottom of about 1.25% hit a couple of weeks ago. Several interest rate commentators suggested that 2020 may have well marked the end of a 40-year bull market in bonds and the beginning of long-term decline in bond market values. A bond's market value rises as interest rates fall and declines as interest rates rise, and interest rates have been falling for a full 40 years. The benchmark 10-year T-note rate has risen 84% from the beginning of September last year. West Texas Intermediate crude oil (WTI), the U.S. benchmark for oil, rose to $69.21, up a mere 0.80% for the week but up 43% year-to-date and a whopping 75% since this time last year.

The Economy

The lead economic story this week was conflicting signals from the Labor Department's monthly jobs report as the new jobs number was shockingly low while unemployment declined. Payroll employment was broadly forecast to rise by over 700,000 in August but when the U.S. Bureau of Labor Statistics made its report on Friday, the total only came to 235,000. When compared with the roughly one million new hires recorded in both June and July, the report was a shocker. In other years, such a dramatically smaller number of new jobs would have been a big negative in the stock market, but this week, it resulted in a new market high as traders concluded that the disappointing jobs report would delay the Federal Reserve from tapering its bond-buying stimulus to the economy and result in lower interest rates longer. Of course, the bond market, with a mind of its own, immediately produced a rise in rates as money moved from Treasuries and into stocks. With fewer new hires in the month of August than predicted, one would expect that the unemployment rate would go up, but instead, the separate survey of households revealed that unemployment declined from last month's 5.4% to 5.2%. While the rest of the job's economy appears to be chugging along toward a recovery, August saw a marked drop in employment in food and drinking establishments that appears to be directly related to the resurgence of the pandemic. We are still employing about 5.3 million fewer workers than in February 2020, just before the pandemic.

The Delta variant appears to be hitting China's economy hard. China's official nonmanufacturing purchasing managers index (PMI) fell to 47.5 on a scale where numbers below 50 indicate a contraction is underway. It was the first time the China PMI has dropped below 50 since February 2020. Their manufacturing PMI took a hit too as it declined to 50.1, indicating a no-growth month. Across the board, China's economy appears to be on the verge of contracting. Those slowdowns in China have a direct effect on our economy as many components and products we purchase in the U.S. are made there. The same effects appear to be in place across most of Asia as national economies are slowed or stop growing in the face of the new variant. Asia, in general, adopted a policy of containment and isolation to halt the disease while in the U.S. we focused on developing effective vaccines and getting the population vaccinated. So far, the death rate per 100,000 in Asia from COVID is substantially lower than in the U.S. but we are charging ahead economically while they are stymied. The result is that we will likely continue to see parts and product shortages through this year and probably through 2022.

Speaking of manufacturing PMIs, the ISM U.S. manufacturing PMI came in at 59.9, higher than expected and up 0.4 from last month, indicating that U.S. industry is growing about as fast as it has the capacity to do. Orders are up, productivity is up, and purchasing managers are optimistic about the future. At the same time, the official one-year inflation numbers came in lower than last month with 1 year core PCE inflation up 3.6%. That is not a low number but is far better than the 5% range we were seeing earlier this year. The inflation spike does indeed appear to be transitory and already moderating. In one last positive note, COVID hospital admissions appear to have peaked and may be in a slight decline. That doesn't mean this is over. Americans are still dying from COVID at a rate of about 700 per day and 23 people died last week in Bell County alone. ICUs are over-filled, and hospitals are out of beds.

The bottom line once more is that we are in a solidly growing economy that is well on its way to full recovery but with the Delta or some new variant remaining the wild card.

Until next week, we pledge to continue to steadfastly seek out better ways to serve you, our clients, with good fiduciary investment selection, allocation, and exceptional service.

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