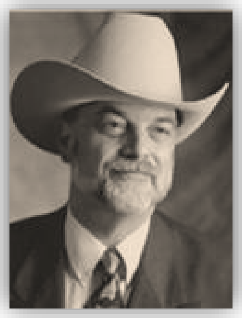


THE PERSONAL WEALTH COACH®

An SEC Registered Investment Adviser

Jeffrey W McClure CFP® Jacob A McClure CIMA®

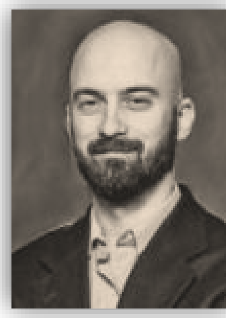
PO Box 1029 / 918 N. Main Street
Salado, TX 76571

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

Serving Investors Since 1982

www.tpwc.com

jeff@tpwc.com jake@tpwc.com



January 14, 2021

TPWC Market and Economic Update

The Markets

Our old, slightly quirky but familiar S&P 500 Stock Index (SPX) was buffeted about all week with good news and bad but finally wound up about where it started at 4662.85, down a mere 0.30%. That does leave it down about 2.17% year to date, but still up about 24 percent from where it was last year at this time. It is the beginning of the quarterly earnings season and so far, some have been exceptionally good and others sort of meh. If, as we have heard and experienced, the thing to watch out for in an historic bull market like we have seen over the past few years is an excess of optimism, and even hubris, then there is little to fear in this one. The worry warts are dominating the news. From an estimated earnings perspective, the market appears to be healthy and even the threat of several interest rate increases this year would only bring the rates back to historical norms. That leaves external events as the risk factor and that is what investors seem to be focusing on. At the other end of the main stock market, the CRSP US Mid-Cap Value Index closed at 2632.45, down 0.41% for the week and 1.35% year to date.

The Treasury bond market continues to obstinately act as though inflation was not an issue as the ten-year U.S. Treasury note only rose to 1.794%. In essence, buyers of those Treasury bonds across the world are voting with their money that inflation over the next ten years will average around no more than 2%. West Texas Intermediate crude oil (WTI) the U.S. benchmark for that slippery stuff, rose about 7% for the week and is now up about 12% this year to $84.39. The rise appears to say nothing about the economy and a lot about the unrest in Kazakhstan, where a lot of oil gets pumped out of the ground.

The Economy

The week was great for any inclined to worry. First, year over year inflation as measured by the Consumer Price Index, came in at a whopping 7%. That was the highest rate since 1982 and even if we just look at the "core" numbers that leave out fuel and food, the annual rate was 5.5%, the highest since 1991. Missing from the heated discourse on the subject was the monthly rate in December rose a mere 0.3%. Even less noticed was the Producer Price Index, the measure of wholesale prices, which rose only 0.2% in December. It appears to us that inflation may have slowed to the 2.4% to 3.6% range even as the pundits were howling about runaway inflation that was going to eat the economy and leave us all in rags.

The fearmonger's second favorite subject was the COVID-19 pandemic. There is no doubt that the Omicron variant is hurting us, and killing 1,700 people per day in the U.S., but the astonishingly high number is found in the record new cases per week rate, about 730,000. The short-term effect is being felt in the economy as illness related absenteeism from the workplace is slowing down just about everything. The good news, or at least, less bad news is that the death rate has not, at least so far, risen as fast as the new case rate. The other gleam of hope is that epidemiologists are saying that because of the very high contagion rate, this third wave will likely peak and decline much faster than did the first two.

Worry topic number three continues to be that the Federal Reserve will accelerate interest rate rises too fast and too far as they traditionally have done in decades gone by, and by doing so plunge the economy into a recession. Given that Federal Reserve Chairman Powell is talking about that as a danger they want to avoid, again the potential for ruin in that area seems limited.

We are though a bit more concerned about events in Ukraine. The State Department officially announced that the Russians have moved in with third-column saboteurs to blow up buildings, equipment, and infrastructure in the separatist held areas and then will use that as an excuse to send in regular Russian troops to "keep the peace" and retaliate against Ukraine. That is exactly what the Russians did to justify their earlier invasion and annexation of Crimea. It was also a popular pre-takeover ploy used by the Nazis in the 1930s. Even though a Russian invasion of Ukraine would likely have little or no noticeable effect on our economy, the fear and shock of a potential war in Europe would likely cause a temporary selloff in the markets. Unfortunately, this is the way major wars have often begun, so the threat is there.

Now for the good news. The U.S. Secretary of Housing and Urban Development made a public statement that drew immediate fire in social media, but none the less was true. The U.S. economy is the only major economy in the world to now be measurably larger than it was before the pandemic. What we are doing and have done here is chaotic, mostly unplanned, and falls far short of the ideal, but despite all our warts and pimples, from an economic perspective, we have done the best job in this global crisis.

We continue to believe the economy and even the markets are on firm footing with plenty of room to grow. That is not to say that we will not have setbacks and crises as the year unfolds, but under it all, the foundations look sound and the economy healthy.

Until next week, hang in there and know that we are hard at work devising better ways to serve you and manage your portfolios in a truly fiduciary manner.

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

Jacob A. McClure, CIMA®