THE PERSONAL WEALTH COACH®

An SEC Registered Investment Adviser

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TPWC Market and Economic Update

The Markets

Our old familiar Standard and Poor's 500 Stock Index (SPX) finished out the week at 4173.85, down 1.39% after dipping down to 4153 at the close on Wednesday. The wee dip in the Index was credited to the Labor Department's report that the Consumer Price Index (CPI) had gone up about 4.2% since this time last year. By Friday, cooler heads had prevailed, and traders seemed to grasp that 12-month trailing comparisons from the sudden economic shutdown last year were not particularly relevant. The SPX remains up 11.12% year-to-date. Down in the smaller-cap, value-oriented corner of the market, the CRSP US Mid-Cap Value Index slipped only 0.83% and remains up 20.88% this year, indicating that the rotation from larger-cap growth stocks to smaller, value-oriented shares remains underway.

The midweek market dip and the associated headlines that inflation was upon us, and the Federal Reserve would surely soon be raising interest rates and kill the recovery reminded us of the old market aphorism that, "A bull market climbs a wall of worry." History reminds us that as long as the bulls are so easily spooked, the bull market is healthy. The time to be concerned is when the economic indicators turn sour, but the market keeps on soaring.

The yield on the ten-year US Treasury note jumped to just over 1.7% on the CPI report but then slid back to 1.63%, about where it was two weeks ago as the ghost of inflation-yet-to come appeared and then vanished. The West Texas Intermediate crude oil (WTI) futures price seesawed during the week as traders tried to figure out the implications of the Colonial Oil pipeline shutdown but finally wound up with a 1% rise to $65.47, rising on Friday with the stock market as traders concluded the expansion was still quite healthy.

The Economy

The market week ending on May 14 was a true slow economics-news week, which did not keep the news media from creating scary headlines and articles. The lead news was that consumer prices as measured by the Consumer Price Index "surged" in April by the most in any 12-month period since, well, 2008, as the Index jumped 4.2% since this time last year. A big part of that rise was the increase in the price of used cars by 10% in just one month. In case you haven't already noticed, fuel prices rose around 50% since last April. 4.2% annual inflation is scary and would indeed likely cause the Fed to react with higher interest rates, but, digging a little deeper reveals something else. If we go back to April 2019 and measure the annualized rate of inflation from there, it only comes to 2.25%, or almost exactly what the Federal Reserve is targeting as the ideal inflation rate. More, it is extremely doubtful that the prices of used cars will rise 50% per month into the future.

Still, it is a valid question to ask what caused the spike in prices and whether or not it is likely to stay with us as future inflation. The answer is that consumers have a lot of cash and their desires and willingness to spend changes far, far faster than the available supply can be ramped up in a complex world. For example, the much-discussed vehicle computer-chip shortage, is a result of the innovation of having vehicles that will automatically hold a lane, hold a proper distance behind the car in front, automatically brake at stop signs and generally make driving a heck of a lot easier and safer, but all of those functions require computer chips. So, if a family goes to the dealer looking for the smartest new SUV and gets told the waiting list runs into next year, it is suddenly time to buy a used car and the prices start up. Then there is transportation. A lot of long-distance truck drivers retired during the pandemic and new ones are hard to come by. Driving for a week at a time (or more) for 16-hour days in a vehicle bigger than most dinosaurs is not a simple job. Consumer spending jumped 10.7% in March but the transport of what is being bought will take a while to catch up. Ergo: prices rise until things get back in balance.

Speaking of retail spending, the headlines were, "US Retail Spending Flat" followed by negative comments on how there was no real growth in April. Huh? Retail spending rose 10.7% in March and stayed up that high in April. That is good news, not some foreshadowing of a slump to come.

The bottom line here is that the economy is going strong but there are going to be some bumps as we experience the most rapid recovery from a deep recession since the early to mid 1980s. All indicators continue to point to a healthy recovery followed by one of the more robust expansions in our history.

Until next week we remain vigilant in our management and search for investment stability and opportunity.

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