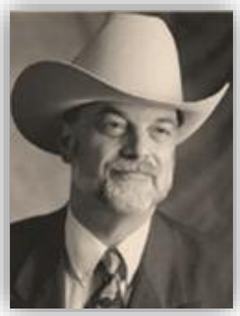

THE PERSONAL WEALTH COACH®

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TPWC Market and Economic Update

The Markets

The old Standard and Poor's 500 Stock Index (SPX), a reasonable stand-in for the performance of the U.S. stock market, took a plunge on a false inflation alarm on Thursday but more than reversed on Friday to close at 4229.89, up 0.61% for the week, 12.61% year-to-date, and only 0.06% below its all-time record. The stock market is still in search of something to be scared of and alternates between fearing the economy may be too strong and that it may be too weak. On such contradictory fears do bull markets grow. It isn't pleasant, but as long as that hint of worry remains, the market is probably on solid ground. The CRSP Mid-Cap Value Index hit a new record for the week, closing at 2508.92, up over 1% and a delightful 22.31% year-to-date.

The 10-year U.S. Treasury note yield confirmed the "no inflation in sight" narrative as it declined to 1.55%, down almost 5% from its recent high of 1.63% in mid-May. Short term rates remain at or slightly below zero out to six months in the open market while the 30-year Treasury yielded 2.24% in a steep yield curve signaling the bond-market's opinion that there is a lot of growth but little long-term inflation ahead. Oddly, the Treasury yield curve looks more like we are at the bottom of a recession with a recovery in front of us, than, as we are, about a year into a strong rebound. Short-term rates are lower now than they were at the worst of the recession depths, but longer-term rates are much higher. Adding its voice to the "things are coming along nicely" chorus, West Texas Intermediate crude oil prices rose 2% for the week to $69.35 on evidence of increasing demand.

The Economy

The economics headline for the week was clearly the Labor Department's announcement that U.S. employers added 559,000 net new hires in the month of May, and, as a result, the national unemployment rate dropped to 5.8%. At the same time the new jobless claims dropped to 385,000 last week, half the number we seemed to be stuck at a couple of months ago. There is both good news and sort of "meh" news in those numbers. On the upside, nearly 560 thousand more people employed is a dramatic jump from the 266 thousand hired in April and in a "normal" month would be a blockbuster number. We are thankful for what we got but we are still down about 7.2 million working Americans from where we were last February. A sizeable portion of that is people who have dropped out of the jobs market. The dropouts have leaned heavily toward women and older men, who are probably retiring. It is growing clearer that a part of the labor shortage is related to childcare prices and availability. As numerous states shut down the extra unemployment benefits, if that is the main problem, expect to see a dramatic increase in new hires over the summer. For whatever it is worth, 5.8% unemployment is the average we have seen over the past 50 years, but much higher than the 3.5% we had in February 2020.

The raw inflation numbers had the markets spooked on Thursday with year over year prices up 4.2%, but a bit of a dig into the report shows something interesting. Once the volatile food and fuel figures are extracted from the report, there is one ultra-big number that appears to be "driving" the show, used cars and trucks. The average price of a used vehicle jumped 10% from March to April and 21% in the last twelve months. In some cases, the price of a very used F150 pickup has doubled in the last year. The "driving" factor appears to be the critical shortage of new vehicles stemming from the computer chip shortage and the sudden release of consumer demand as the economy opens up. A big part of that too is that most Americans have not spent their stimulus checks and in many cases are eager to make a down payment on a new, or at least different car or truck. Hopefully, as the chip shortage fades prices will return to something closer to normal. Interestingly enough, the same surge in short term prices seems to be occurring across the world, so it is something bigger than us.

Despite dramatically rising raw materials costs and delivery times, and a labor shortage, the U.S. manufacturing sector is growing at the fastest rate since such things have been measured. The ISM Manufacturing Index, in which numbers above 50 indicate growth, hit 61.2 for May. As you might guess, the backlog of new orders also hit a record, promising plenty of activity in the months to come. The manufacturing ISM Index was put to shame by the services number, a whopping 64! Indicators suggest that both manufacturing and services in the U.S. economy are growing at about as fast a rate as is possible. As we enter the last month of the second quarter, Moody's is forecasting U.S. GDP to grow at a 9.9% annualized rate for the full quarter.

In summary, the U.S. economy is growing at a breakneck speed with little sign of long-term inflation pressures and every sign of far more of the same coming down the road. The last time we saw this kind of growth, and not coincidentally, a fleeting bout of short-term inflation was in the late 1940s as we exited WWII.

Until next week we remain dutifully at our respective posts, scanning the horizons for better and more stable investment returns and always for better ways to serve you, our sole employers.

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