THE PERSONAL WEALTH COACH®

An SEC Registered Investment Adviser

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TPWC Market and Economic Update

The Markets

Our preferred gauge of the stock market, the S&P 500 Stock Index (SPX) closed out the week at another record high as it got its mojo back after last week's bipolar scares that the Federal Reserve would be too lax or too vigilant. It ended the week at 4280.70, up 2.74% for the week and is now up just under 14% year-to-date. While comparing the SPX with where it was last year at this time is a bit misleading as the Index is indeed up a whopping 42% from its depressive lows of 2020. At least some of the credit for its reinvigoration was given in published reports to the infrastructure deal announced on Thursday between President Biden and a bi-partisan group of Senators. The concept of a trillion dollars invested in roads, bridges, power grids, power sources, and vehicle charging stations across the country inspired investors in everything from Caterpillar to Tesla and propelled the stock market to a series of new highs since the announcement. In light of the recent shutdown of the I-40 bridge across the Mississippi River at Memphis, there was a sense that something had to be done if commerce was to continue to flow across the country. Not to be outdone by its larger cousin, the CRSP Mid Cap Value Index, the other stock index we track, rose 3.42% to 3449.82, also a record close, and is now up 19.39% this year.

The 10-year U.S. Treasury note, the bond market's benchmark, increased its yield to 1.528%, far from its recent highs but reversing six weeks of declining rates. Since bond prices fall when rates rise, the T-note has resumed its role as a counterbalance to the stock market. The yield curve remains quite comfortably steep, suggesting better times ahead. Longer-dated Treasuries out to about 30 years saw a rush of buying as bond investors concluded that the Fed has inflation under control. The price of West Texas Intermediate crude oil (WTI) rose 3.42% to $74.00 as demand continued to ramp up in a reopening economy. In an interesting pattern, the longer-term contracts for WTI are now cheaper than short-term ones. That pattern suggests the oil patch is likely to significantly increase production this year.

The Economy

Two stories dominated the economic headlines for the week, first that household spending held steady at a record rate but continued to shift from buying goods to spending on services, and second that prices were up a bunch from this time last year. The first looked quite healthy and the second was, as usual for one-year comparisons, rather misleading.

The U.S. economy is about 67% consumer spending, quite unlike the economies of most of Europe and Asia where exports, largely sales to the U.S., drive the train. The headline sounded grim here at home, "Consumer Spending Flat from Last Month," but a look at the numbers from the Commerce Department showed something remarkable. Consumer spending for May remained an astonishing 20% higher than it was in February 2020, the month before the pandemic hit. If you have been to a restaurant, or event, you have seen the result, jammed tables and full parking lots. At the same time though, weekly worker filings for unemployment insurance, a proxy for layoffs, also remained flat at 411,000, nearly twice the pre-pandemic number. This is definitely a recovery that is split between different populations. Where and why the layoffs continue to be so high in a booming economy continues to be an unanswered question.

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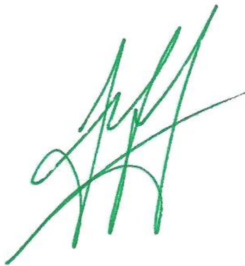
The second headline, that the Personal Consumption Expenditure (PCE) Index (the Commerce Department's inflation measure) rose 3.9% in the last twelve months, was the one that could be misleading. If instead of measuring the PCE Index against last year at this time, we go back two years and measure the annualized rate since May of 2019, inflation, including food and fuel, has risen at a relatively sedate 2.26% per year. That number is important to the markets because the Federal Reserve Board has repeatedly stated that they don't pay much attention to the CPI but watch the PCE carefully. The difference between the two is that the CPI measures a set list of goods and services, some of which are pretty weird (like the rental value of your house), while the PCE Index measures the price change in what people actually spent money on during the period.

In another bit of good economic news, the Commerce Department announced that U.S. durable goods orders, items expected to last three years or more, jumped 3.2% from April to May. A big piece of that jump was a rush of orders to Boeing for its 787 Max airliners now that they have cleared the safety and regulatory hurdles. Business investment in capital goods, equipment to make things and provide services, continued to rise at a 15% annualized rate.

The bottom line is that we passed through a small wobble last week, but the rebound appears to be stronger than anyone would have predicted even a few months ago. Better, there appears to be plenty of fuel for things to improve even more as the global economy works through its supply-chain issues.

Until next week we remain your obedient servants, sworn to serve you, our clients, as fiduciaries and with the utmost of service to you and the well-being of your investment portfolios.



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