



jeff@tpwc.com

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



jake@tpwc.com

July 16, 2021

TPWC Market and Economic Update

The Markets

Our old marker, the S&P 500 Stock Index (SPX) got into a bit of a fear-fit for the week ending on July 16. After making a run at the 4400 mark on Wednesday morning, it sagged for the rest of the week to close at 4327.16, down 0.98% for the week but still up over 15% year-to-date. The market news headlines and stories credited the decline to a weakening of consumer sentiment. If that was so, then the stock market is indeed prescient, as the decline began on Wednesday, but the consumer sentiment report was not released until Friday morning. It looks to us to be another case of general fear of the Fed moving too soon to cut off inflation, with the consumer sentiment index as a justification for selling after the fact. The CRSP Mid-Cap Value Index took a bit of a swoon, dropping 2.26% for the week, closing at 2387.48, remaining up 16.3% for the year. Bull markets climb a wall of worry and there is a fair amount of wall there.

In an odd reversal of the stock market's sentiment, the yield on the 10-year U.S. Treasury note fell nearly 5% to 1.294%. The oddity is that the supposed reason for the stock market decline was fear of inflation-related interest rate increases, but short to intermediate-term interest rates declined with stocks, suggesting the bond market anticipates lower inflation and rates lie ahead. No small number of words and pages have been devoted to this conundrum recently. The strongest evidence appears to continue to point at a lot of international buyers for U.S. Treasuries but only a very limited supply of new debt from the Treasury as it continues to draw on its deposit reserves at the Fed. Like almost everything else in this recovery and expansion, it is quite literally different from any we have seen before since detailed record keeping began. There is some suggestion that we may have seen the same set of circumstances as we emerged from WWII, but the detailed data is just not there to validate it. West Texas Intermediate crude oil followed the stock market and Treasury yields down, dropping nearly 5% to \$71.45 by the end of the week. The reason here was clearer, OPEC reached an agreement to increase oil supply, and, at the same time, the dollar strengthened, lowering the dollar price of global oil.

The Economy

There was no question about the week's economic headline as the Labor Department released June's Consumer Price Index (CPI). The one-year increase in the general cost of living by that standard, has risen a whopping 5.4%. It was no coincidence that the release of that report coincided with the beginning of this week's slide in stock values. Even after adjusting for the volatile food and fuel numbers, it was up 4.5%. As usual, looking a little deeper into the numbers changes the impression though. The average increase in used car and light truck prices wound up being a full one-third of the total and has risen an astounding 45% in the last twelve months, so that unless someone is buying a used car, the real inflation rate was a nice, even 3% year over year. The used car average price leapt 10.5% just in the last month. Once again, the culprit was the shortage of computer chips that has forced a dramatic reduction in production of new cars. Another factor was the sudden surge in demand for services like airline tickets, hotel rooms, and restaurant meals. Just before the Labor Department's bombshell report, Fed Chairman Powell testified for two days before congressional committees and assured that the price increases were, as he has said before, "transitory." On Friday, the consumer weighed in as the University of Michigan sentiment index decreased from last month's 85.5 to 80.8, and the decline was based on inflation fear. According to the survey, consumers


Information contained herein has been obtained from sources believed to be reliable but is not warranted as to accuracy or completeness. Past performance is no guarantee of future returns. For tax or legal issues consult with a qualified tax advisor or attorney. Investments when sold may be at a higher or lower price than when purchased. Refer to your custodial account statements for securities holdings and values.

expect 4.8% inflation over the next year and a 2.9% average over the next ten years. The survey suggested that consumers were balking at new, high dollar purchases in the face of increasing prices.

Meanwhile, second quarter corporate earnings have started coming in well above expectations, JP Morgan's Jamie Dimon claimed the U.S. consumer was just getting started and had a lot of buying yet to do, retail consumer spending rose at an annual rate of 7.2% in June, and industrial production rose at a 4.8% rate, held back by that pesky chip shortage stunting auto production. Showing just how transitory such things can be, lumber prices fell back to normal. New unemployment claims fell to 360,000, the lowest since the pandemic started.

Despite the fear-inducing one year CPI number, the U.S. economy is still revving up but is limited by supply shortages and bottlenecks. We are still of the opinion that this surge in prices is indeed transitory, and the U.S. economic expansion is in good health and has a lot further to run.

Until next week, we remain at our keyboards (except Jake who is on vacation) working for Truth, Justice, and the American Way, or something like that.



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



Jacob A. McClure, CIMA®

