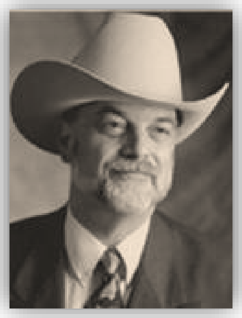

THE PERSONAL WEALTH COACH®

An SEC Registered Investment Adviser

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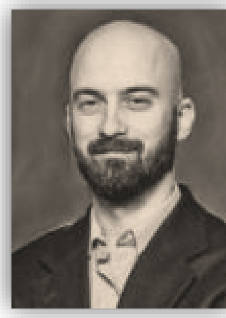

August 27, 2021

TPWC Market and Economic Update

The Markets

The S&P 500 Stock Index (SPX), our preferred stock market indicator, rose a delightful 1.52% for the week to close at another record high, 4509.37. Apparently unnoticed by the pundits and newspaper reporters, the SPX has now risen 101.55% from its bottom in March 2020, a full double in value from its nadir of 2237 back when we apparently collectively believed the end of the world was at hand. The index has now risen 20.06% this year in the face of lots of worrying news, once again showing the validity of the old Wall Street aphorism, "Bull markets climb a wall of worry." Not to be outdone by its older, larger cousin, the other stock index we follow, the CRSP Mid Cap Value Index, rose a whopping 2.5% to close at 2514.42, also a record high, and is now up 22.58% year-to-date. Corporate earnings keep coming in well above expectations, as do the CEO's forecasts. More, the companies in those indexes are nearly unanimous in their statements that the logistics mess that is holding them back will be resolved and there are a LOT of unfilled orders on the books.

The yield on the ten-year U.S. Treasury note climbed out of its three-week slump, rising 3.65% to 1.307% as more money headed to the stock market and away from bonds. 1.3% is a paltry interest return, but it's worth remembering that today's paltry rate is more than double the yield we saw back in July 2020 when the 10-yr note only was paying 0.53%. West Texas Intermediate crude oil (WTI), the U.S. benchmark, jumped 10.31% to $68.67 as the offshore platforms in the Gulf of Mexico shut down to prepare for hurricane Ida.

The Economy

The lead economic news this week was from Fed Chairman Powell's speech for the Jackson Hole symposium, held digitally this year as the COVID Delta surge deterred the luminaries from attending in person. In essence, he said the economy has a lot of momentum, businesses and families have a lot of cash they want to spend, but logistics logjams are holding up the show and creating a transitory spike in inflation. He went on to predict that the supply issues will be resolved within twelve to eighteen months and that release should really kick the economy into high gear. The stock and bond markets were most responsive to his suggestion that the bond-buying stimulus program currently operating at about $120 billion per month could be reduced later this year but that interest rate increases were not even on the table. Historically, that remark would have sent the markets into a "taper-tantrum" out of fear that financial liquidity could be reduced, but with corporations, banks, and people in general sitting on a metaphorical ocean of cash, no such fears arose. His speech was widely credited as the catalyst behind the market rise this week as investors came away assured the Fed would not crush the economy with higher interest rates.

The rest of the economic data was mixed. The University of Michigan's Consumer Sentiment Index for August dropped 13% from July's reading to 70.2 from July's 81.2, the largest decline in the over 50-year history of the Index, and the lowest reading since 2011. Significantly, the Index is now lower than it was in April of 2020 when the lockdowns were occurring. Survey respondents were fearful of the Delta variant and its potential for slowing the economy. Durable goods orders for items meant to last three years or longer, were essentially flat from last month because of supply constraints. The HIS Markit U.S. Composite Purchasing Manager's Index dropped to 55.9 from last month's 59.9 on a scale where numbers above 50 indicate growth. The comments across the board continue to blame the reduction in the growth rate on shortages in labor, parts, and transportation, with sidenotes that the Delta variant is having an impact on workers. The good news is that, like Chairman Powell, company representatives believe this slowdown is temporary and there is plenty to do when it passes. Interestingly, the purchasing managers surveyed were more optimistic than they had been earlier in the year despite the fall off in the growth rate.

In other bits and pieces of news: Interstate transborder truck freight was up 12% in June when compared with June 2019. In a critical bit of good news, the Bureau of Economic Analysis reported that personal income in the U.S. rose 1.1% in July while personal expenditures rose 0.3%. In our economy where the lion's share of GDP is from people earning and spending money domestically, those are big positives. At the same time, the August Personal Consumption Price Index (PCE) climbed 0.4% from July and is up 4.5% for one year, again largely on increased prices for vehicles. If you track such things, it is worth noting that the dollar is, and has been soaring against the Euro as the U.S. appears to be recovering and expanding better and faster than the rest of the world.

The bottom line has not changed very much. We are in a booming economy held back by supply and labor shortages but driven forward by consumers with plenty of cash and willingness to spend it. There are problems, but the great thing about our entrepreneurial, chaotic system is that we are innovators and perform at our best when faced with apparently insurmountable obstacles and the opportunity for whoever defeats them to make a lot of money. We will figure this out and turn a profit as we do so.

Until next week we remain faithfully at our stations, striving to create better portfolios and great fiduciary service for you, our clients, and sole employers!

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