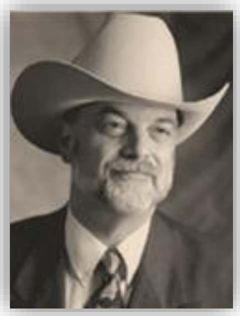

THE PERSONAL WEALTH COACH®

An SEC Registered Investment Adviser

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TPWC Market and Economic Update

The Markets

Our consistent if sometimes eccentric stock market barometer, the S&P 500 Stock Index (SPX) finished the week at 4458.58, down 1.69% from last week's record high. The Index is now up 18.7% year-to-date and has doubled from its bottom in March 2020. It's hard to call a market decline good news but considering that all the major investment banks came out this week with warnings that the stock market was overpriced and likely to see a correction soon, a mere 1.7% decline is mild. Interestingly, both gold and bitcoin fell too. The CRSP Mid-Cap Value Index joined in, declining 2.13% to 2459.01, but is still up 19.84% year-to-date.

The yield on the 10-year U.S. Treasury note rose 7.6% to 1.335%, meaning that bond prices fell too (bond prices move inversely to rates). The benchmark note's yield, like the stock market, has almost doubled in the past year. West Texas Intermediate crude oil (WTI) did eke out a wee gain of 0.55% to $69.62, and like the stock market and bond yields, has nearly doubled in a year.

The Economy

There were two storylines that dominated the economic news for the week. The louder one was that literally all the major investment banks both here in the U.S. and in Europe, posted warnings that the economic growth rate earlier predicted by them and just about everyone else was declining. The second echoing story was that the logistics and supply problems that were widely expected to start clearing up by Labor Day weren't and were possibly getting worse.

Underlying both stories was the harsh reality that the Delta variant of COVID-19 is causing disruptions across the world. The measure of the severity of this surge can be seen here in the U.S., where we are keeping fairly accurate records. The seven-day average daily death rate from COVID in America has risen from its low of 168 in the early summer to last week's 848 according to Johns Hopkins. That is still well below the 2,500 per day mortality rate back in February, but it is ominously still rising each week. Here in Bell County, Texas the weekly death rate rose to 34, a tie for second place since the pandemic started. Anecdotal reports, including the Federal Reserve's Beige Book, indicated businesses were pulling back, and in some cases closing, in the face of increased COVID-related absenteeism and a reluctance of customers to use services where face to face contact was expected. Several major corporations that had forecast a return to regular office business by Labor Day are now saying it will come at the end of year, maybe. While the rising hospitalizations and deaths in the United States appear to be slowing our rate of growth, the disease's impact in Asia is far worse. Across the world, the economic effect looks to be tied to the vaccination rate and the efficacy of the vaccine used.

The global impact is, for our economy, more than a statistic. Closed ports and factories in Asia equate to a supply constraint here, and following the law of supply and demand, a limited supply is causing prices to rise. The Commerce Department reported that the U.S. Producer Price Index for final demand rose 0.7% in August. Perhaps more significantly, the price of goods, as opposed to services, rose a full 1% in one month. That rise puts the overall Producer Price Index up 8.3% from a year ago and wholesale goods up over 12%. Notably, core inflation has not risen anywhere near as fast as the producer, or wholesale prices causing profit margins for businesses to be compressed. The concern is that lower profits can mean lower earnings in the third quarter, which could be a trigger for a market correction. As the disruptions and shortages are being primarily created by a temporary factor, COVID-19, there is little sign of a long-term inflationary trend, but in the shorter-term there is a potential for some bumps.

In case we didn't have enough to worry about, Treasury Secretary Janet Yellen officially warned Congress that the Treasury will run out of money in October unless Congress acts to raise the debt ceiling to cover the spending that Congress has passed into law. As has happened in the past, members of the party that doesn't hold the White House are threatening to block passage to make the administration look bad. The actual government shutdown from a failure to pass an increase in the debt ceiling has only happened once, but the threat is enough to unsettle the markets.

Despite the pandemic and the damage wrought by hurricane Ida, our economy continues to grow at a rate we have not seen since the early 1980s. The threat at this point is that estimates of a higher growth than it looks like we are going to get may cause some speculators to bolt from the market creating a correction. If that happens, as in the past, it will almost certainly be a passing blip when seen in retrospect. The Wall of Worry needed for a healthy bull market is still in place. We remain optimistic.

As September 11, 2021, arrives, we encourage you to take a moment to remember the event that changed all of our lives and rededicate to a willingness to do whatever it takes to prevent such a tragedy from ever happening to us again.

Until next week, rest assured that we remain diligently focused on good portfolio management, great service, and deep caring about the welfare of our clients and sole employers!

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