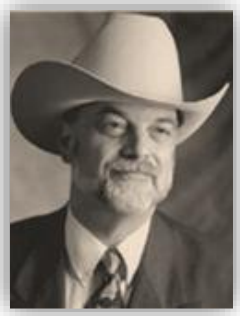

THE PERSONAL WEALTH COACH®

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TPWC Market and Economic Update

The Markets

It is September, and we are in the two months when historically the Bulls and Bears usually have their most spirited conflicts. In the week ending 9/17 they held to that tradition, with the S&P 500 Stock Index (SPX) sliding on Monday only to open at a new record high on Tuesday morning. Then, through the day on Tuesday, the Bears drove the Index down further than on Monday. Wednesday afternoon saw another record high as the Bulls gained ground, only to see it gobbled up by the Bears on Thursday morning. Near the close on Thursday, the Bulls drove the market to the third record high of the week, only to see it eroded by the end of the day. On Friday, it was clear the Bulls were out of steam as the Index slumped to its lowest point of the week. After all that, as the Germans say, "Strum and Trang" one would reasonably expect to see something significant in the week's movement, but in the end, the SPX finished down a mere 0.57% at 4432.99, 2.26% off its high at the beginning of the month, and up 18.02% year-to-date. The CRSP Mid-Cap Value Index followed the lead of its bigger cousin, declining 0.77% to 2440.04 but remaining up 18.9% this year.

Not to be outdone by the equities markets, the yield on the 10-year U.S. Treasury note rose over 2.8% to 1.373%, driving the price of bonds down too, and leaving that benchmark interest rate up nearly 50% this year, and an eye-popping 96% from one year ago. If you hold mid to long-term bonds in your portfolio, the picture has not been pretty these last twelve month. West Texas Intermediate crude oil (WTI), the U.S. benchmark, rose to $71.95 per barrel, up 3.38% for the week, 49% this year, and 76% from twelve months ago.

The Economy

The U.S. Bureau of Labor Statistics summed up the most important news of the week in its usual, dry, laconic manner as it released its "Real Earnings Summary." "Real average hourly earnings for all employees increased 0.4 percent from July to August... This result stems from an increase of 0.6 percent in average hourly earnings combined with an increase of 0.3 percent in the Consumer Price Index." There is a lot in those two sentences. It means the median hourly wage rose at an annualized rate of 7.2% while the full inflation rate increased at 3.6%. That dry statistic was reflected in Amazon's announcement that it was raising starting wages at most of its distribution centers to $18 per hour. Higher wages per hour equates to more money for those workers to spend in the economy, and lower wage workers generally do spend about all of it.

The immediate reaction by the Bears, and more than a few pundits, was, "Whoa! Stocks will go down as higher wages slam profits." The reality appears to be quite different. 87% of S&P 500 companies, including Amazon, beat their earnings (profits), estimates in the second quarter, and the CEOs were largely in accord that the best is yet to come. What is happening is some of those unexpected, record profits are now going to workers, who, as we wrote before, will likely spend them in the economy.

Then came another apparent downer from the Census Bureau. The headline was that median household income dropped 2.9% in 2020 and the percentage of those households officially in poverty rose from 10.4% to 11.4%. Diving deeper revealed a very different picture. That income figure did not include the pandemic stimulus checks, nor other government payments, such as unemployment. After those benefits are figured in, it turns out that the poverty rate fell to a record low of 9.1%, down 2.6% from the previous year.

Yet more bad news turned into good news in August. The consensus of economists' estimates was that retail spending would drop 0.7% for the month, a depressing 8.4% annualized rate of decline. Instead, when the Census Bureau came out with the official figure, retail spending by consumers, *rose* 0.7%. If we leave out car purchases because frankly, there aren't very many cars to purchase out there, spending jumped a whopping 1.8%. More, despite the effects of hurricane Ida, jobless claims were essentially flat, running along at the lowest level since the pandemic started.

A clearer picture is emerging of our late-pandemic economy. More workers are spending more money, inventories are being increased in anticipation of the Christmas buying binge, and evidence continues to accumulate that those crippling logistics and supply shortages are being addressed. Inflation is moderating, productivity continues to rise, and delightfully, the hot weather is moderating. We are not out of the woods yet, but it's getting lighter ahead. Keep your heads up!

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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