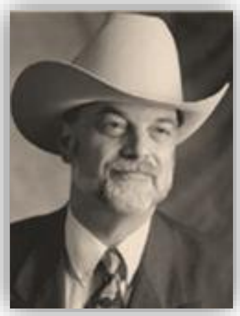

THE PERSONAL WEALTH COACH®

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October 15, 2021

TPWC Market and Economic Update

The Markets

It is October, and the market is displaying its usual October bi-polar activity. The S&P 500 Stock Index (SPX) fell for most of the first three days of the week, wringing its metaphorical hands as the one-year inflation data spooked traders in fear that there would be a stampede out of the market, then along came early earnings reports from the major banks and others for the third quarter. Those earnings were generally higher than even the most optimistic predictions, so the traders, concluding that the world was not coming to an end after all, rushed back into the market. By the week's close, the SPX was up 1.82% to 4471.37. The week's rise leaves the Index up over 19% this year and up over 28% from a year ago. Not wanting to be left behind, the CRSP Mid Cap Value Index rose 1.58% to 2510.59, still ahead of the SPX this year with a 22.39% gain.

The U.S. Treasury 10-year yield retraced a bit of its recent rise, falling almost 2% to 1.574%, but still up an eye-popping 71% for 2021 so far. Getting ready for Halloween, the price of West Texas Intermediate crude oil (WTI) rose another 3.62%, crossing the $80 line to $82.37, putting its price change from the beginning of September up over 32%. Oil is up over 70% this year and an astonishing 102% from a year ago. As high as it is, it is still trailing the rising cost of natural gas, up 113.21% this year and up 47% in just the last three months. Power plants are reportedly switching from natural gas to oil, increasing the demand, and driving gasoline prices up.

The Economy

The biggest market moving data this week was the Consumer Price Index (CPI) release from the Labor Department. It put the overall increase in prices up 5.4% for the trailing 12 months and up 0.3% in just one month. Some of the standout areas in the report included the price of motor fuel, up 42% from a year ago, piped utility gas service up 21%, and used cars and trucks, up 24%. Traders on Wall Street looked at those numbers and grew more worried that the Federal Reserve would need to raise interest rates sooner and faster than had been assumed. A cooler review of the numbers though, reveals that if one removes the volatile food and fuel elements from the averages, the one-year change drops to 4% with September's increase only 0.1%. That tiny rise in the core average suggests that the underlying economy was only experiencing inflation at a 1.2% annualized rate. That will be cold comfort when the heating bills come in this winter, but so far, the price increases do not seem to be leaking over into the general economy.

For those who receive Social Security payments, that increase in the CPI is going to look like good news this year. The Social Security cost of living adjustment will increase their monthly income by a delightful 5.9% for 2022, the largest increase since 2008. For those still working, the averages appear to be working in their favor too. The Labor Department also reported that hourly earnings for non-supervisory workers rose 4.6% in September from a year earlier. Federal Reserve Chairman Powell and other Fed officials continue to insist that the price increases are "transitory" and their opinion is seconded by Moody's, other economic forecasters, and the CEOs of the major U.S. banks.

Meanwhile, weekly jobless claims fell to the lowest level since the pandemic began, dropping below 300,000 for the first time since the early lockdowns of 2020, to 293,000 from 329,000 in the previous week. In a strong sign of confidence in a growing economy, that drop in layoffs was accompanied by a record high number of workers quitting their jobs as they jumped to a better opportunity elsewhere. 4.27 million people or 2.9% of the workforce resigned in August alone. Despite all the confusion and worry about interest rates, the effects of the COVID Delta variant, and other things, the American consumer shrugged it all off and increased retail spending at an annualized rate of 8.4% in September, according to the Commerce Department.

Another leading indicator we watch closely is orders for manufacturing technology. When that metric is up, it signals that manufacturing decision makers are willing to make a significant long-term commitment to an economic future that is better than we are seeing today. The August U.S. manufacturing Technology Orders report published by the Association of Manufacturing Technology showed a 20% increase in orders from July 2021 and an 89% increase over August 2020.

For the last several months, we have been predicting some bumps in the road for the third quarter, and they are showing up, but the underlying core U.S. economy seems to be taking the supply chain chaos, the widespread labor shortage, and the threats of a government shutdown in stride. Things are likely to remain rough for a bit, but all the fundamental indicators are pointing to a resurgence in the fourth quarter and a very healthy 2022 on the horizon.

Until next week, we remain dedicated to the search for good long-term returns, wise investment and financial advice, and the delivery of quality fiduciary investment advice and portfolio management.

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