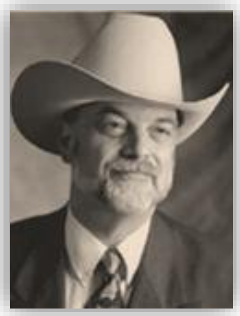

THE PERSONAL WEALTH COACH®

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TPWC Market and Economic Update

The Markets

Our preferred market indicator, the S&P 500 Stock Index (SPX) turned in a stellar week despite a steady beat of worrying news about supply and labor shortages, rising prices, rising interest rates, and general uncertainty. It closed out the week at 4544.90, up 1.64% for the week, 21% year-to-date, and 31% from this date a year ago. It wasn't quite a record close as the Index was four points higher at the close on Thursday, but it was a record for the end of a market week and the Dow Jones Industrial Average did set a record on Friday. Our other stock market indicator, the CRSP Mid-Cap Value Index closed at 2547.28, a record high, leaving it up 24.21% for 2021. The rise in the market averages was driven by third quarter earnings as a diverse set of companies as varied as Tesla and American Express reported earnings substantially higher than expected. So far, it looks like the average one-year earnings growth for the S&P 500 will come in at about 35%, or a bit more than the market average has risen, suggesting the impressive rise in the SPX over the last twelve months is rational and reasonable.

The yield on the benchmark ten-year U.S. Treasury note rose as well, ending the market week at 1.646%, up 3.9% from last week. It is sometimes hard to grasp, but a rise in bond interest rates occurs not because the ten-year bonds changed their coupon interest rate but because the value in the underlying bonds on the open market fell. The average Treasury bond maturing ten years from now is still trading at a premium to its maturity value, suggesting that intermediate interest rates have plenty of room to keep rising. As the releases and speeches from members of the Federal Reserve Board continue to warn that the Fed's bond buying stimulus is very likely to begin to taper off over the next several months, bond values have a high probability of falling as intermediate to longer-term interest rates rise. Not to be left out of the excitement, West Texas Intermediate crude oil rose another 2% for the week to close at $84.07 as demand for energy and transportation fuel ramped up.

The Economy

Economic news for the week continued to be dominated by reports of supply chain snarls as products and raw materials backed up outside U.S. ports and at railheads across the country. The reports are now falling into a pattern with the problems consistently being linked primarily to a shortage of truck drivers. Our economy has surged following the COVID lockdowns and continues to boom, growing at a rate we have not seen since the early 1980s. The difference this time is that the rapid growth of the early 1980s came after one of the more severe post-WWII recessions while the current supercharged growth blossomed out of one of the mildest and shortest recessions in U.S. history. The current surge in growth also comes as the average age of a long-haul truck-driver in the U.S. is about 55 while the average age in the early 80s was in the mid-40s. As the pandemic shut down industries across the country in the spring and summer of 2020, many truck drivers were laid off. When it came time to go back to work, many of those chose to retire rather than return to the grueling work that is long-haul trucking. Adding to the problem is the federal regulatory requirement that to drive an 18-wheeler, one must be at least 21 years of age, but the typical driver only has a high school education. That three-year gap between high school graduation and reaching the minimum age to drive the big rigs shifts those who are willing to make the sacrifices to do the hard work that takes them away from home for days at a time into other fields. In the past, when there have been driver shortages, trucking countries have been able to recruit drivers from other countries, but a combination of general immigration restrictions and the pandemic have largely eliminated that fix. Meanwhile, ports are operating at about 60% to 70% capacity and railroads are turning down shipments because the freight yards at the destination are full of containers awaiting a driver and a truck to pick them up and deliver them.

There is good news out there too. Jobless claims have fallen to their lowest for the week since before the pandemic. Adjusted for seasonal factors, the IHS Markit Flash U.S. Composite Purchasing Managers Output Index was 57.3 in October, rising from 55.0 on a scale where numbers above 50 indicate growth as private sector businesses recorded a sharp and accelerated upturn in output led by the service sector. Unfortunately, the manufacturing sector, while still recording growth, was less that optimal as supply and labor constraints continued to limit activities. A major positive was reported by the Federal Reserve as household spending on debt is the lowest in over 40 years and correspondingly, household balance sheets are the healthiest in a generation. Presuming we can find some truck drivers, the pent-up demand and the cash and credit to fulfil it are there. Alternatively, we may see a slower rate of growth but extended over a longer period.

Once more, the U.S. economy is bumping up against capacity limitations but unlike past times when we have hit the stops, there is ample credit and cash in the American consumer's pockets and the leading indicators are signaling clear weather ahead. This is a bumpy period, but many of the bumps are a result of high growth that looks quite sustainable.

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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