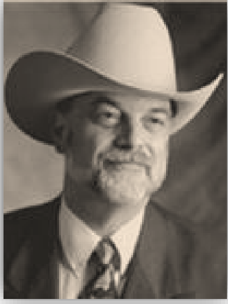


# THE PERSONAL WEALTH COACH®

An SEC Registered Investment Adviser

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## TPWC Market and Economic Update

### The Markets

The old, familiar, and sometimes idiosyncratic S&P 500 Stock Index (SPX) turned in a stellar week, closing at 4605.38, hitting its 54th record close this year, up 1.33% from last week, 22.61% year-to-date, and a mind-boggling 41% higher than this time last year. The driving factor was intensely logical; third quarter earnings are not only coming in above estimates, but largely a *lot* higher than those estimates. The market seemed to consider slumping as an option when the third quarter GDP first estimate was announced by the Commerce Department but couldn't ignore the fact that despite disappointing GDP numbers, major corporations were seeing record revenues and profits. The bottom line appeared to be that year-over-year inflation gets subtracted from the GDP report but seemed to get added to corporate earnings. The CRSP Mid-Cap Value Index headed the other way, backing off 1.35% from last week's record high.

The yield on the benchmark ten-year U.S. Treasury note backpedaled too, declining about 4.6% to 1.564% even as the 30-year bond slipped below the 2% mark to 1.947%. The yield curve remained steep, hanging on to its forecast of better times ahead and that inflation above 2% was not likely to persist. West Texas Intermediate crude oil prices slipped 0.075% to $83.35, remaining above the psychologically important $80 mark as investors are starting to get interested in doing more drilling.

### The Economy

The headliner this week was the first estimate third-quarter U.S. GDP release by one of our favorite government agencies, the Bureau of Economic Analysis in the Commerce Department. Most of the pundits saw the quarter's "real gross domestic product" annualized growth estimate of 2% as a downer, but we agree with the market reaction that it really wasn't that bad. We can agree that the main issue was the COVID Delta variant, and supply shortages, but there are plenty of ways to view our national growth or decline in profits each quarter. If we look at it in the same way a business would, reflected in the "current-dollar GDP," the annualized growth number was a whopping 7.8%, or $432.5 billion, to a total domestic quarterly profit of $23.17 trillion. Sure, it was a lot less than the second quarter's gain of $702.8 billion, but as the supply chain issues and the resulting price increases show, the U.S. economy is simply not structured to grow that fast. Significantly, the outsized growth in goods purchases drove the GDP gain in the second quarter while in the third, spending shifted to services. Another set of numbers that popped out of the GDP report was that the core Personal Consumption Index, the one-year inflation measure favored by the Federal Reserve Board, declined from the second quarter's 6.1% to 4.5% in the third. It remains high but is headed in the right direction.

There were other nuggets in the BEA report that tell us a lot about what is going on in the economy. Current-dollar personal income continued to rise, up $47.8 billion despite the cessation of government stimulus checks and most federal unemployment extensions. The personal savings rate slipped from 10.5% in the second quarter to 8.9% but remained far higher than we have seen in decades. But the key take-away, in our opinion, was that consumer spending rose at an annualized rate of 1.6%. Better yet, spending in the month of September was up 0.6% or an annualized rate of 7.2%. Keep in mind that consumer spending equates to about two-thirds of our economic output, so that number suggests a 10.8% annualized growth in current dollar GDP.


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Our economy is being disrupted by two major factors, both related to the pandemic. The supply chain/logistics issues are largely being caused by a shortage of truck drivers. That problem stems from another issue that has, until recently remained a bit of a mystery. There were about 10.4 million posted job openings in August, up from seven million in February 2020 even as the labor participation rate of 25 to 54-year-old people in the workforce has risen. In late September, the U.S. Census Bureau, another government agency we love, ran a survey to find out why. Four million workers were home sick with COVID symptoms or caring for someone with the disease, three million were out from fear of COVID, and five million were home taking care of kids because many day-care centers have not reopened and/or schools were intermittently closing. 12 million workers sidelined specifically because of the pandemic explains the labor shortage nicely. It also explains why the cessation of emergency unemployment benefits does not appear to have improved the employment numbers. The key is that as the pandemic recedes and vaccination rates grow, most of those issues will likely clear up. Presuming that happens, both the supply chain and labor shortages should diminish, and prices stabilize. That will be a welcome relief.

Other than those two impediments, our economy appears to be driving forward with a great deal of momentum and energy. More, it continues to have all the earmarks of an economic expansion with room to continue for some time to come.

Until next week we continue to drive forward into the great economic and market unknown, always in search of ways to improve the portfolio management, service, and fiduciary investment advice we create for you, our loyal readers, listeners, and clients.

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