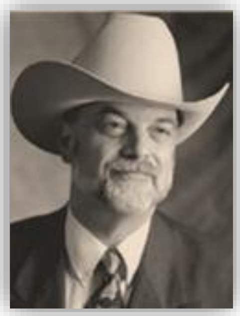

THE PERSONAL WEALTH COACH®

An SEC Registered Investment Adviser

Jeffrey W McClure CFP® Jacob A McClure CIMA®

PO Box 1029 / 918 N. Main Street
Salado, TX 76571

(254) 947-1111
(800) 914-7526

Serving Investors Since 1982

www.tpwc.com

jeff@tpwc.com

jake@tpwc.com

November 5, 2021

TPWC Market and Economic Update

The Markets

Our dear old cranky friend, the S&P 500 Stock Index (SPX) cranked out another record close to end the week, rising a nice even 2% to 4697.53. The rise in market value has been nothing short of astonishing with the SPX up 25.07% year-to-date, 33.58% since this time last year, and a mind-boggling 110% since the market bottom last year in March. We've been looking and as far as we can tell, it has also risen so far this year, more than in any first year following a presidential election. We are very much aware of the fear that people had after the election that the policies of a Democrat would cause a market collapse, but history argued for the opposite, and it has come to pass. It is so with each new president, regardless of the party. It is good to remember that the economy and the markets are commonly counter-intuitive. Not to be outdone by its larger, older cousin, the CRSP Mid-Cap Value Index rose 2.51% for the week and is now up 25.61% year-to-date.

The yield on the 10-year U.S. Treasury note slipped almost 7% to close at 1.452% as the potential for extended inflation rises began to fade. The Treasury yield curve continues to be steep, forecasting high economic growth ahead, with the 30-year bond holding just under 2%. West Texas Intermediate crude oil (WTI) joined in the slide, falling 2.52% to $81.25 despite OPEC and Russia's pledge to hold output growth to a gradual rate.

The Economy

A lot happened this week in the economics universe. It should be noted that the Dow Jones Industrial Average topped 36,000, a feat promised in the book "Dow 36,000" way back in 1999. It did take a little longer than the writers assumed but we are there. More, both the Dow and the much larger S&P 500 are substantially cheaper in terms of their price to earnings ratios than they were when the book was published. The big news though was the Employment Situation Report issued by the Bureau of Labor Statistics. The headline was that the U.S. economy created and filled 531,000 jobs last month but under the headline an additional 235,000 jobs were added to the reports for the preceding two months, bringing the grand total of new jobs reported to 766,000 more than was reported last month. At the same time, the separate, household survey found that the unemployment rate had dropped from last month's 4.8% to 4.6% for October. The reports also indicated that average wages are up about 4.9% from a year ago and 0.4% for the month.

Paralleling the employment report were other data points that tend to reinforce the idea that we are in a healthy recovery and expansion. The weekly report for new unemployment claims, a good proxy of the number of layoffs going on in the economy, showed a drop to 269,000, still a bit higher than the 2019 average of 218,000, but the lowest number since the pandemic hit. The total number of people drawing unemployment benefits also hit a pandemic low of 2,105,000.

In other news, as was widely expected, the chairman of the Federal Reserve, Jerome Powell, announced that the Fed will reduce its open market bond buying by $15 billion each in November and December, a rate that would end the monetary stimulus program by June of 2022. Added to that announcement was his announcement that if inflationary pressures continue to mount, the Fed would be prepared to raise interest rates following the end of the stimulus but did not anticipate having to do so at this point. Interestingly, at least for us economic geeks, was the reaction of the bond market. After a short bump upward, as we noted above intermediate interest rates fell for the week. The stock market, rather than sinking in dismay, rose on the news. In essence, the buyers of stocks and bonds voted with their dollars that this bout of inflation was indeed transitory and would dissipate within a year or two.

In our studies of inflation and why it is or is not present, there are two major driving factors. First, if there is a shortage of supply, prices will rise, but in a free economy like ours, those higher prices will create an opportunity for enterprising investors to create more supply or transportation capability, making the increases fade and in most cases, reverse themselves over time. The other cause is if wages are rising faster than prices so that we are in a feedback loop that leads to a "wage-price spiral" as we saw in the 1970s. So far, the evidence is solid that price increases are running well ahead of wages and are being primarily generated by transportation and manufacturing limitations. This has happened before and historically preceded a period of fast economic growth rather than "stagflation" like we saw in the 1970s. Only time will tell but we see this as a sign of good growth and better times ahead.

There is more, far more news, and we hope to address it on our radio program but suffice to say that all the evidence we can find suggests that the U.S. economy is on a roll with a great deal of momentum and plenty of fuel to propel it forward. We continue to be upbeat and optimistic about the market and the economy.

Until next week, rest assured that we are paying attention to you, to the indicators in the market, and to the heartbeat of the economy on your behalf. If you have questions, thoughts, or concerns, feel free to contact us by email, internet, or even by the postal service and we promise to do our best to respond.

Jeffrey W. McClure CFP®
M.S. Personal Financial Planning

Jacob A. McClure, CIMA®