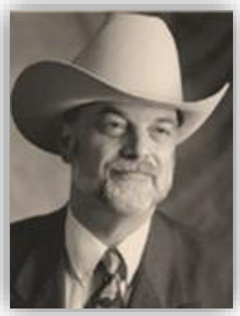

THE PERSONAL WEALTH COACH®

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TPWC Market and Economic Update

The Markets

After running up 7.81% in five weeks, a wee bit of a pullback was probably in order as the S&P 500 Stock Index (SPX) sagged 0.31% for the week to close at 4682.85. The proximate cause of the dip was the announcement by the Labor Department that inflation, when measured from one year ago, was the highest it has been in three decades. The fact that the stock market decline was so mild suggested though that stock investors weren't too upset by it. The SPX now is up 24.67% year-to-date, an eyeball-popping 30.62% from a year ago, and an even more impressive 109.3% from its low point in March of 2020. The CRSP Mid-Cap Value Index, was up 0.53% for the week closing at 2589.78, up 26.31% so far this year.

The yield on the U.S. Treasury 10-year note popped upward 8.264% for the week to 1.572%, but still well below the 1.6% it hit about a month ago, as that market too suggested that the one-year trailing inflation numbers are not being taken too seriously. As a point of reference, the 10-year note was yielding well over 3% only three years ago with inflation running just over 1% per year. West Texas Intermediate crude oil (WTI) was down as it declined about a half percent to $80.87 per barrel as OPEC announced that it expected oil demand to wane in the face of high prices.

The Economy

The economic headlines were obsessed with inflation following the release of the monthly Consumer Price Index (CPI) report by the U.S. Bureau of Labor Statistics. That report pegged the rise in average consumer prices from this time last year to be 6.2%, the highest one-year rise in 31 years. An avalanche of words in the broadcast and text media followed, with no shortage of shrill warnings that runaway inflation was upon us and the "stagflation" of the 1970s was at hand. The market pundits quickly jumped in and declared that the Federal Reserve was sure to raise interest rates now and in doing so would crush stock market values.

The problem with all those warnings was that the people with skin in the game, primarily stock and bond investors, looked at the details in the CPI report, and pretty much shrugged their shoulders and continued about their business. Even gold futures, which are historically rather sensitive to the threat of future inflation, only rose about 2.5% to $1,867 per ounce before settling back and ending the week about where they were a year ago. Obviously, there was something in that CPI report that caused the people who ought to be most concerned about 6% inflation to be so sanguine.

Digging into the numbers that make up the CPI, it is quickly possible to see what generated that muted response. The big drivers of the high one-year inflation number are simply not likely to continue to rise at an accelerated rate for another year. In fact, history would suggest that most of them will likely fall over the next twelve months. The two biggest contributors were used cars and trucks, up over 26% since last year, but down a bit from three months ago, and motor fuel, up nearly 50% in one year. The other biggies were natural gas, up 28%, and meat, poultry, fish, and eggs, up about 12%. It does not take a lot of thinking to realize that used cars are not likely to continue to see price increases of 26% per year. The same logic applies to motor fuel. Even OPEC recognizes that gasoline prices have hit the tipping point where they are causing a reduction in demand. The same logic applies to natural gas. The increase in protein prices appears to be a combination of a high demand from China, where they are still trying to rebuild their hog herds following a devastating attack of African swine fever, a bad grain harvest, and the same labor and truck-driver issues that are hitting everywhere else. The key takeaway is that none of the big contributors to the high inflation number appear to be sustainable.

Another cause of the labor shortage came out in a report. Job openings have been holding consistently above 10 million, much higher than the number of unemployed Americans. Meanwhile the percentage of Americans in the labor force has been declining. The driver of much of that appears to be older Americans retiring at a record rate. Before the pandemic, there was a strong trend for those over 65 to go on working, but that trend has reversed, and much of the reversal is related to the disease and the increased workload its disruptions have created.

In signs of a healthy economy, new layoffs fell to a new pandemic low, the "quit rate" of resignations as workers move on to better jobs was the highest in decades and the U.S. budget deficit continued to decline from last year.

There is more, much, much more, and we hope to get to some of it on our radio show, but the bottom line remains the same. The American economy is running at full throttle and is showing no sign of any indication that it will drop back any time soon.

Until next week, we remain focused on providing our clients with the best and most personal fiduciary advice, portfolio management, and service possible.

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