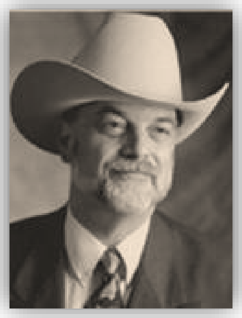

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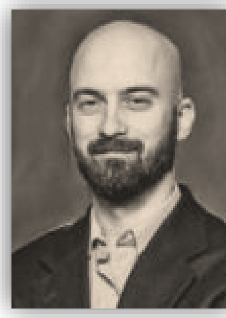

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TPWC Market and Economic Update

The Markets

Our dear old friend, the S&P 500 Stock Index (SPX), representing the U.S. stock market, put in a 2.2% swoon for the foreshortened Thanksgiving week, dropping to 4594.62, almost all of which was in the half day of trading on the Friday following the holiday. That Friday slump puts the Index down 0.04% for the trailing month, but up 2.79% for the trailing three months, well over 22% this year, and a still staggering 27% from last year at this time. The other stock index we follow, the CRSP Mid-Cap Value Index, showed the resilience we would expect from value stocks and held its weekly loss to 1.53%, closing at 2414.42. The financial headlines jumped on the decline, announcing this was the biggest point decline for a "Black Friday" half-day in history for the Dow Jones 30 Industrial Average and the worst single day drop since, well, sometime last year. Reading further down the story in the *Wall Street Journal*, one could find the disclosure that many, if not most traders had taken the day off, so one of the issues was that those who wanted to sell were having a field day as the major buyers were sleeping off their Thanksgiving dinners.

The reported proximate cause of the plunge was the announcement that the new "Omicron" COVID-19 variant had been found in a few people who had arrived in Europe. The first, and quite reasonable question pops to mind, "Is this the big one?" As we write this on Friday after the market close, we are going to go out on a limb and say that we don't think so. The stocks that did the initial falling were quite reasonably, airlines, hotels, and other issues that were likely to be damaged by the international border closings announced and likely to be announced in the future. When those stock prices dropped, it triggered automatic defensive selling programs that dumped baskets of stocks, including the whole SPX, which in turn, caused other automatic defensive block sells to be triggered. If after the real traders and senior decision makers at the major Wall Street firms come back next week, the selling continues, we are probably on the way to a full-blown correction, but, if as we suspect, those traders sense an opportunity and start buying, then this will go down in history as just another short blip in a record-breaking bull market.

In reaction to the stock market decline, the yield on 10-year U.S. Treasury notes, performed as expected, declining about 4.5% to 1.479% as the money fleeing stocks was automatically invested in that benchmark bond. That corresponding decline in rates left the 10-Year T-note yield up about 63% this year in another indicator that this, at least so far, is a minor blip. West Texas Intermediate crude oil fell about 10% for the same reasons as the stock market to $68.17.

The Economy

Now, on to the real economic news. There were several significant economic announcements for the Thanksgiving week that, as is normal every year, were largely buried and little-noted in the holiday and Black Friday hurly-burley. Probably the most important was the fact that, according to the Commerce Department, nominal U.S. consumer spending rose 1.3% in October alone. In an economy like ours where 2/3 of the GDP is consumer expenditures, that is an impressive monthly rise. That figure puts real consumer spending up 6.9% over the last three months, even after subtracting inflation. At the same time, personal income rose 0.5% for October, with wages up 0.8% as the government transfer payments declined. That extra spending above income was reflected in the savings rate dropping to 7.3% from September's 8.2%. That still leaves about $2.6 *trillion* in excess savings in consumer accounts, so there is a lot more that can be spent. Another announcement from Commerce was that, if we exclude the volatile aircraft orders from the data, durable-goods orders were up half a percent for the month. New orders remain higher than orders shipped, effectively forecasting good business ahead.

In other news, relating to last week's scare, the core Personal Consumption Index (PCI), possibly the most accurate inflation indicator, did rise 0.4% in October, but is up only 4.1% from a year ago, suggesting that real inflation is ebbing downward. President Biden tagged Jerome Powell, the sitting Fed Chair, for another term, suggesting his conservative approach to the economy will remain in place. New U.S. unemployment claims hit a 52-year low last week down to 199,000, well below the pre-pandemic average. The U.S., China, S. Korea, Japan, India, and the U.K. agreed to sell oil from their strategic reserves to lower oil and gasoline prices, irritating the OPEC (+) nations that were trying to drive prices up. Wholesale business inventories were up 2.2% in October, suggesting that supply chain issues are fading as businesses ramp up for Christmas. And… Moody's is forecasting an 8.5% annualized GDP growth in the fourth quarter.

The bottom line for the week is that, yes, there is another new COVID-19 variant, but the underlying economy is still accelerating. So far, there is no evidence that the new variant is immune to the current vaccines but in a bull market, worry blips are the norm, so all still looks good to us.

Until next week, we continue in our fiduciary duties to seek better ways to provide good portfolio management and provide the best advice and service possible to our clients.

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