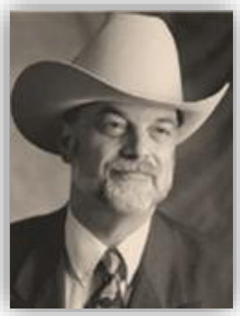

THE PERSONAL WEALTH COACH®

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

December 10, 2021

TPWC Market and Economic Update

The Markets

Once more, if a person tracked the bad news reporting, particularly regarding the one-year inflation rate, it would be reasonable to assume that the U.S. stock market would have fallen off a cliff for the week ending on December 10. Instead, our preferred if flawed indicator of such things, the S&P 500 Stock Index (SPX) soared 3.82% to 4712.02, setting a new record closing high. The Index is now up 25.45% this year and 28.62% from a year ago. The other stock index we follow, the CRSP Mid-Cap Value Index joined in the party, rising 2.86% to 2550.96 and is now up 24.35% year to date.

The healthy fear factor that is a driving force in a bull market is still in place in the media and by stock investors. While the headline SPX and Dow Jones Industrial Index are hitting record highs, beneath the surface, there are more stocks hitting new lows rather than new highs. That ratio is important because historically major bull markets have signaled their coming demise as almost all stocks start hitting 52-week highs, regardless of the health of the underlying company. The number of new lows suggests the stock market may have room to grow.

The benchmark 10-year U.S. Treasury note yield, largely discounting the many published alarms about higher rates ahead and news about current high inflation, rose 6.51% to 1.484% but remained well below the 1.64% it held through much of October. West Texas Intermediate crude oil (WTI) prices rose along with the 10-year yield to $71.98, about 8.7% higher than last week but still down about 11% for the trailing 30 days.

The Economy

As was widely forecast by economists, the Consumer Price Index (CPI) rose 6.8% in November from one year ago. That one-year number was the highest since 1982, and is the sixth monthly, one-year number to be above 5%. The Core Index, a subset of the CPI that removes the often-volatile food and fuel prices, was up 4.9%. The redeeming grace seemed to be that the high number was so well forecast, and the forecasts were so accurate. One of the reasons the stock market reacted to the "bad news" by rising was that those same economists that forecast the 6.8% number are also forecasting that inflation will start falling in 2022 and within six to twelve months should be down in the 2% range. Meanwhile, wages rose 4.3% over the same period and it appears that major corporations are budgeting for a 3.9% increase in employee compensation in 2022.

A careful analysis of this surge in inflation reveals that it appears to be quite different from the inflation we saw in the 1970s and early 80s. Back then, inflation was almost solely generated by rapidly rising demand as consumers bought on credit as soon as they could, in anticipation of higher prices to come. This episode of inflation does indeed have a demand element to it, but that element is relatively minor. The major cause continues to be a shortage driven by the supply chain bottlenecks. Used cars and light trucks, for example, rose 31% while new vehicle prices were up 11%. Those price increases occurred in an environment where personal vehicle sales were still down significantly from 2019. Gasoline and fuel oil too have risen at unsustainable rates of 58% and 59% respectively over the past twelve months. Literally no one expects those rises to occur again over the next twelve months. If we pull out the unsustainable elements of the CPI report, general inflation falls to about 3.4% over the last year, and even that number is artificially high as demand was depressed by the pandemic a year ago in many areas. In short, the underlying numbers driving the high one-year inflation rate appear to be suggesting not a wage-price spiral as we had a half century ago, but rather a pandemic-driven event that will fade over the next one to two years.

In a non-headline-making report, the Federal Reserve reported that Household net worth in the United States for the third quarter of 2021 rose to a record $144.709 *trillion*. That "net" number compares quite favorably with the total household and government debt of $63.7 trillion. The bottom line is that we, as a nation, not counting government property, have about $208.4 trillion in assets and about $63.7 trillion in debt. By almost any measure that is a healthy ratio.

The bottom line remains largely the same. The U.S. economy shows every sign of remaining extremely healthy and the historical indicators of a coming downturn remain subdued or non-existent. That does not mean we are exempt from a market "correction" as there is a strong, underlying element of fear that could be easily turned into a short-term panic by external events, such as a Russian invasion of Ukraine or some other global event. Keep your powder dry and recognize that bull markets are traditionally punctuated by sudden and often quite scary corrections. This one is no different.

Until next week we pledge to continue to do our darndest to do our best to provide absolutely superb support, service, and fiduciary advice and portfolio management for our clients, no matter where in the big wide world they may be.

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

Jacob A. McClure, CIMA®