# THE PERSONAL WEALTH COACH®

**An SEC Registered Investment Adviser**


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## TPWC Market and Economic Update

### The Markets

The S&P 500 Stock Index (SPX), representing the U.S. stock market, suffered through a bipolar week soaring to a new record intraday high of 4727 on Thursday before ending on the 17th down 1.94% at 4620.64. The bears were growling that either the Omicron variant would crush the economic recovery or that the Federal Reserve would see the economy as running too hot and clamp down by raising interest rates too far. The bulls' argument was that the economy was and is running strong, Omicron was a non-event, and the Federal Reserve was being quite cautious in its move to slow things down. The bulls were winning on Monday, then the bears got the upper hand on Tuesday. The bulls came back on Wednesday and into Thursday morning but as the week ended, the bears once more clawed the market down, if only a bit. At the end of the week, the SPX was up over 4% for the trailing three months, 23.02% year-to-date, and 24.57% from last year at this time. The other index we follow, the CRSP Mid-Cap Value Index, joined in the sag, dropping 1.42% for the week to 2514.68 but remains up 22.60% year-to-date.

The benchmark 10-year U.S. Treasury note yield continued to suggest that the current high inflation rate is a passing thing as it slipped about 5% to 1.407% at the end of the business day on Friday. Despite pundit's worries that the prescient Treasury yield curve might flatten, the curve stayed positively positive despite the 30-year T-bond yield slipping to 1.814%. West Texas Intermediate crude oil (WTI) joined in the slipperiness as it slid down 1.42% to $70.13 per barrel.

### The Economy

One of the primary reasons for the roller coaster ride in the stock markets this and last week is that there is simply no dominating headline subject in the economy. In the kind of reverse logic that commonly drives markets, there was a general rise in the markets as several Federal Reserve Board members gave speeches suggesting that there were three 0.25% Fed rate increases and a more rapid reduction in bond buying in the works for 2022. The markets enthusiastically welcomed the news that the Fed was taking inflation seriously but then turned sour on more news that the Omicron COVID variant was spreading ever faster both in Europe and in the U.S.

Retail sales rose a seasonally adjusted 0.3% in November from the previous month but were up 18.2% from where they were last year according to the Census Bureau. Perhaps more importantly, sales were up a whopping 22% from the same time before the pandemic, in 2019. Not coincidentally, for the third quarter of this year, according to the Commerce Department, net personal income rose 9.3% even as government transfer payments phased out. Available consumer cash, the fuel that drives about 2/3 of the U.S. economy appeared to be holding its own and even growing after adjusting for inflation.

Despite the good news about income and spending, the market's sag on Thursday and Friday was reportedly triggered by the report by New York that the state recorded a record 21,027 new Covid-19 cases. Ohio activated over 1,000 National Guard personnel to relieve staffing shortages at healthcare facilities following activations in Maine and New York as the Covid rate doubled over a three-day period. The real notice that Omicron was going to have an impact came as the National Football League postponed three games in the week because of outbreaks in the scheduled teams. The glimmer of good news in all of that came as countries like South Africa where the new


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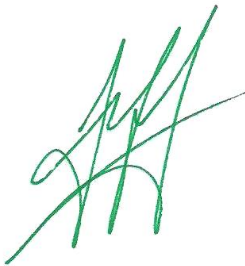
variant has been running the longest, are reporting a far lower percentage of those testing positive wind up in the hospital or dying of the disease. The problem is that far more people are getting sick and quicker than has been seen before, so the total number of hospitalizations and deaths are up. So far, deaths are nearly all unvaccinated persons. The concern here in the U.S. is primarily about how much the new surge in infections will impact the economy.

In what was almost a side note, President Biden signed a congressionally passed bill increasing the federal debt ceiling by $2.5 trillion and avoiding a U.S. default on Thursday, the day the Treasury officially ran out of money. The current ceiling should carry us into 2023 when once again Congress will need to decide if it wants to pay the bills for past legislation. In another item of exceptionally good news, Moody's is forecasting the 4th quarter U.S. GDP will grow at a rate better than 8% and for the year, GDP should be up about 5.6%. Considering that reported GDP is net of current year-over-year inflation, that is an impressive level of economic growth.

The bottom line remains much the same. The U.S. economy is growing at the fastest rate any of us have seen in forty years or more but remains restrained by supply shortages. Those shortages are being compounded by Covid-19 shutdowns in China and other supplying countries, while the Omicron variant presents an unknown level of threat to us here in the U.S. Our sense is that we will drive through this wave in better shape than we saw in the earlier two and come out on the other side still on top of the world.

Until next week, we remain your faithful, fiduciary portfolio managers, advisors, and servants.



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