THE PERSONAL WEALTH COACH®

An SEC Registered Investment Adviser

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TPWC Market and Economic Update

The Markets

Our dear old friend the S&P 500 Stock Index (SPX) broke another record this week... on Monday, when it closed at 4796.56. Then it made another run at the record on Tuesday, closing a mere three points lower. Then came Wednesday and the release of the December Federal Reserve minutes. Those minutes suggested that the Fed might start raising short term interest rates as soon as March and could at the same time start selling some of their immense balance sheet of longer-term bonds, thereby increasing interest rates along the entire yield curve. That suggestion of higher rates, that soon, spooked some tech investors and started a downward slide in the Index. It closed out the week at 4677.03, down 1.87% from last Friday's record high. The CRSP Mid-Cap Value Index hit a new record high on Tuesday, but unlike its older cousin, the SPX, it came out with a positive return for the first week of 2022, up 0.94%, to close at 2621.67.

The yield on the benchmark 10-year U.S. Treasury note appeared to take the Fed minutes seriously as it rose a whopping 17% to 1.767%, higher than it has been since the pandemic started. The yield curve continued to be reasonably steep as the 30-year bond yield joined with its shorter kin and rose to 2.120%. 30-year mortgage rates, as would be expected, followed suit, rising to 3.46%. West Texas Intermediate crude oil (WTI) working off of a different playbook, rose 3.13% to $78.85 as oil investors and producers concluded that the Omicron variant would not significantly impact oil demand in the new year.

The Economy

There were three big bits of news that topped the headlines at different times for the week. The first, although for many now just a background buzz, was that new COVID cases per day in the U.S. are now higher than they were at any earlier point in the pandemic. That news was sort of shrugged off as we had been there before, but then, along came the Fed minutes. A year ago, it was widely reported that a serious rise in interest rates would not come until, at the earliest, late 2022, and more likely 2023. Since a lot of tech companies are sustaining their growth by some serious borrowing, low interest rates meant their profits could keep flowing even as they loaded up on debt. The prospect of higher interest rates dead ahead could tip some of them in the wrong direction, or at least that is how the worry goes. In reality, given the probable inflation over the next couple of years, current interest rates are still negative after subtracting likely inflation. We see this as a healthy bull market climbing its proverbial "wall of worry."

Then, on Friday, we got another bit of interesting news as the Labor Department released its monthly Employment Situation Summary. As we saw in December, it was a story of good news and bad news but was as confusing as such things are likely to get. The Jobs Report, as it is commonly known, first estimated that only 199,000 new jobs (seasonally adjusted) had been created in December. Since estimates had been for a number upwards of 400,000 that was a bit of unpleasantness. Then, in the second half of the same sentence, came the news that the unemployment rate had declined from last month's 4.2% to 3.9% in December (not seasonally adjusted). Our first thought was that perhaps a lot of workers had given up and stopped looking for work, but no, the labor participation rate remained steady at 61.9% of age-eligible U.S. residents. Once more, the unemployment survey, obtained by contacting households across the country, indicated a lot of workers found jobs while the job creation

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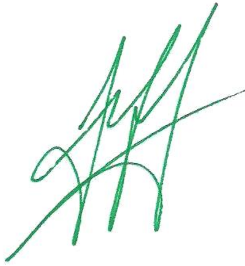
number, obtained by contacting large employers, indicated that we created relatively fewer jobs. The drop in unemployment means that about 786,000 people who were unemployed in November found jobs in December, indicating the economy produced a lot more than 199,000 new jobs. Our guess is that the seasonal adjustments that work quite well in normal years are throwing the job creation numbers off on the low side. There was a bright side to even the wonky numbers. We broke another all-time record for the year with an amazing 6.4 million new hires in 2021, signaling a strong economy ahead.

There are a couple of important take-aways from those numbers and bits of news. First, the Omicron variant is likely to slow, but not reverse the economic growth rate for the next couple of months as the Delta variant did in the third quarter of 2021. Second, the American economy is on a roll, possibly unmatched in our half century of observing that beast. The Atlanta Federal Reserve is now estimating the 4th quarter GDP growth rate to come in at an astounding 6.7%. We won't have the official number until January 27, but all the numbers we are seeing suggest it is going to be one of the strongest in decades. The Conference Board is estimating that for the full year, 2021 U.S. GDP will have risen 5.6% year-over-year. If that comes to pass, it will be the highest annual GDP growth we have seen since 1984 in the midst of the Reagan economic recovery. In short, things continue to look bright in the good, old American economy. Despite the "wall of worry" that bull markets normally climb, the underlying numbers and indicators still are signaling good times ahead.

Meanwhile, we remain alive and kicking and working hard at being the best fiduciary advisers, investment managers, and generally, all-around friendly folks we can be.



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