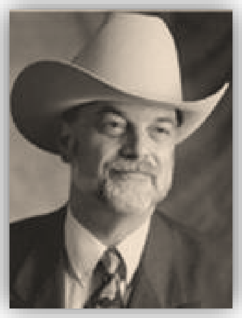

THE PERSONAL WEALTH COACH®

An SEC Registered Investment Adviser

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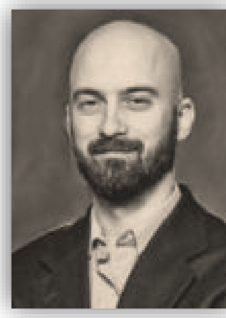

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TPWC Market and Economic Update

The Markets

If you were following the markets all week and finally threw in the towel early on Friday, January 28, you may feel a bit like the KC Chiefs fans who left the stadium with less than a minute before what seemed surely to be a heartbreaking defeat for the Chiefs, who, of course grabbed a tie with mere seconds left in the regular game and won in overtime. On Friday the S&P 500 (SPX) started out sliding downward, looking like it was going to continue its slipping, sliding fall that has been its main theme since the beginning of the month. Then, in a flash of glory, the SPX soared 3.1% to close at 4431.85, up 0.71% for the week. That still leaves it down just over 7% this year, but it seems to have once more dodged the negative 10% bullet and thus avoided a full-scale correction. It also leaves the Index up 19.32% from a year earlier. Our other carefully followed stock index, the CRSP US Mid Cap Value Index, closed at 2493.91, up 0.21% for the week, but only down 3.98% year-to-date, and up a whopping 21.47% from this time last year. The driving factor in this almost-correction appears to be a deep fear that the Federal Reserve will recklessly hike interest rates so fast that it flips the economy into a recession. Given that both its chairman and its members have repeatedly stated they do not want that to happen, we believe the risks there are quite low.

The yield on the 10-year U.S. Treasury note continued its relentless rise to end the week at 1.778%, up about 0.7% since last week, leaving adequate steepness in the yield curve for the economy to have plenty of room to grow with the 30-year bond yielding 2.083%. West Texas Intermediate crude oil joined in the climb, rising nearly 3% to $87.25 per barrel. Wall Street analysts are estimating we will see $100 per barrel prices in the summer, so get ready for some pain at the gas pump.

The Economy

The big economic news, announced early in the week by our beloved U.S. Bureau of Economic Analysis, was that the 2021, fourth quarter U.S. GDP grew at an annualized rate of 6.9%! Presuming that first estimate holds, it means that for the whole year of 2021, the economy of the United States expanded at a 5.7% net rate of growth. Note that inflation is subtracted from the GDP, as is the trade deficit, so that 5.7% is a net number and the fastest economic growth we have seen since 1984. There is a caveat here though. A substantial portion of that high annualized GDP number came from businesses restocking inventory as the supply chains started to unkink. We will not see that kind of inventory build in the first quarter of 2022, and it appears that we may see inventory drawdown as the massive number of COVID-related sick days builds up. We are already seeing grocery store empty shelves and hardware shortages limiting manufacturing. Inventory drawdowns reduce GDP, so best estimates for GDP growth in the first quarter of this year are running about 2.2%.

Related to that, manufacturing output started slowing in December and decreased between 1% and 2% across the country. Durable goods orders, driven by transportation orders, followed suit and fell 0.9%. If we exclude transportation from the orders, they rose 0.4%. The underlying reason appears to be the onslaught of Omicron causing large numbers of workers to stay home sick.

Consumer spending also fell in December by 0.6%, the first decline in 10 months. That slump was driven in part by people doing Christmas purchases early, back in November, but primarily by Omicron. The patterns were there that as Omicron surged through the population centers on the east and west coasts, consumer spending fell. Sick people and people scared of getting sick tend not to spend much money. Economists are predicting that consumers will open up their pocketbooks again as soon as Omicron looks to be in the rear-view mirror. The reasoning is sound since the cash in consumer balance sheets remains at near record levels and a New York Federal Reserve survey of consumers showed that households across the country are planning to spend more in 2022 on food, clothing, housing, utilities, and transportation than they have in the past two years. Those factors coupled with a substantial increase in wages suggest that sometime in the second quarter of 2022, the U.S. consumer, who is responsible for about 2/3 of our GDP, will return to traveling, the internet, restaurants, theaters, and stores to celebrate.

So, what about the stock market? All the data available when parsed against history strongly suggests that this semi-correction we are seeing is nothing more than that. The earnings yield of the S&P 500 is still higher than bond yields, the yield curve is still forecasting better times ahead, and the Omicron tidal wave appears to have peaked in the areas it hit first. Barring a Russian invasion of Ukraine or another, more severe virus variant, the future looks bright. We will need some patience as the first quarter is likely to be bumpy, but beyond that we expect some very good times ahead.

Until next week, we remain faithfully at our posts making every attempt to do what we do for you better, quicker, and more effective with each passing week.

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