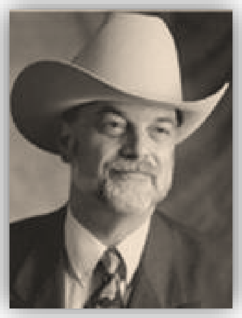

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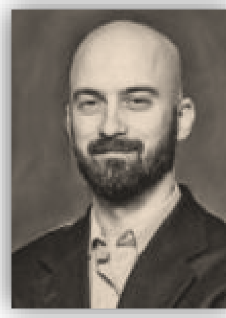

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February 11, 2022

TPWC Market and Economic Update

The Markets

Our preferred if sometimes flawed primary stock market indicator, the S&P 500 Stock Index (SPX), looked very much like it was going to have another positive week until Thursday rolled around, and it got hit with a double-whammy. First, James Bullard, the St. Louis Federal Reserve Bank President, and voting member of the Federal Reserve Board (the Fed), said that he was "dramatically" more hawkish on interest rates and wanted to see a full percentage point of interest rate increase by July and is open to an immediate increase without waiting for the next Board meeting. Then, administration officials called for all U.S. citizens in Ukraine to evacuate immediately because Russia is poised to invade at any time. We have mentioned in the past that there are several things that were on our market risk radar, and on that one day, two of them popped up with big blips. Nothing has happened yet in either area, but markets operate on anticipated future events, and the probability of unpleasant things happening soon just jumped. The SPX finished the week down 1.82% at 4418.64 but remains up 12.30% from this time last year. The analysis of where the stock market is ranged from the perennial doomsayers forecasting a crash to others who looked at the impressive earnings reports that have come in so far this year and claim that the market has not been this relatively cheap in two years, and thus is a bargain. The CRSP Mid-Cap Value Index, our other tracked stock index, *rose* 0.44% for the week to close at 2540.09, further confirming the rotation from large-cap growth stocks to smaller, value stocks. It remains down 2.2% from its high at the end of last year but appears to be holding up relatively well.

The yield on the benchmark 10-year U.S. Treasury note did indeed jump up above 2% on Thursday, but after spiking midday on Friday, sagged back down to about where it was last week at 1.915%, up 0.08% while the Treasury yield curve continued to remain decidedly positive, suggesting good times ahead. The folks in the bond market are not anticipating unreasonably high interest rates anytime soon. The spread between the 10-year T-note rate and the 10-year Inflation-adjusted Treasury rate suggested that the bond mavins expect average annual inflation to average about 2.5% over the next decade. West Texas Intermediate crude oil (WTI) prices slid slowly downward until Friday, when they jumped up to $93.87 per barrel, up 2.1% for the week. The rumor was that if war in Eastern Europe happens, it could choke off oil exports from Russia, creating a shortage and driving up prices.

The Economy

The headline economic news for the week ending on February 11 should have come as no surprise to anyone but that did not keep the pundits from panicking. The Labor Department released its monthly estimate of what happened in the Consumer Price Index (CPI) both for the month and from last year at this time. The headline one-year CPI was up a stunning 7.4%, which, again should be no surprise to anyone who has been to the grocery store or filled up their tank with gasoline. Looking carefully at the components of the Index, it was the usual culprits that were driving the rise, namely used cars and trucks, up 40.5%; motor fuel, up 40%; and meat, poultry, fish, and eggs, up 12.7%.

We remain of the opinion that such increases will not continue at that level over the next year. Used cars and trucks, for example, are extremely unlikely to appreciate another 40% over the next 12 months, and gasoline too is unlikely rise as much in 2022 as it did in 2021. Once, again, the primary source of those price increases other than for fuel, appears to be kinks in the supply chain. We Americans want to buy goods, and we want them *now!* When high demand hits a limited supply, prices tend to go up. The CPI we see was primarily generated by January's economic demands for goods, but there is growing evidence that consumers are shifting their spending away from goods and back to services. While services prices were up too, the drivers appeared to be the goods involved in providing those services. Presuming we emerge from the pandemic over the remainder of 2022, there is evidence that the supply chains will open up and prices may stabilize. The future is always uncertain, but we are optimistic.

Meanwhile, jobless claims fell for the third straight week and are now down to where they were in 2019 even as hiring surged. E-commerce (online buying and selling) was twice as high in January as it was a year ago. Indications are that work-from-home is here to stay, even after the pandemic fades away. The 2021 trade goods deficit increased 27% last year as our booming economy enabled us to buy a lot of "stuff" from other countries.

In short, the U.S. economy continues to boom, with plenty of fuel to keep growing but that will not insulate market levels from a fear shock if war does break out in Eastern Europe or the Fed jacks interest rates up to an unreasonable level. On that last issue, if the Fed adopts Bullard's "hawkish" position it would bring interest rates and Fed policy only back to where it was before the pandemic, in our view a not-unreasonable place for them to be.

Until next week, rest assured we are hard at work in our endless efforts to provide better service, portfolio management, and results for you, our faithful clients, readers, and listeners.

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