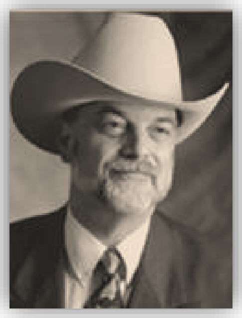

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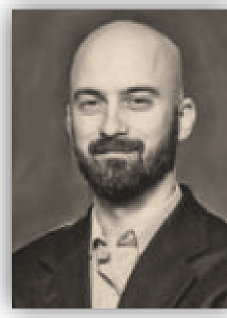

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February 18, 2022

TPWC Market and Economic Update

The Markets

It was another bumpy week for stocks as the S&P 500 Stock Index (SPX) charged up to nearly 4500 before sagging back on fears of a Russian invasion of Ukraine, closing at 4348.87, down 1.58% for the week, and 8.76% so far this year. On the brighter side, it is still up 11.32% from this time last year. There was an abundance of good economic and earnings news, but the imminent threat of war continued to weigh on the markets. The CRSP Mid-Cap Value Index broke its recent string of gains to lose 1.2% for the week, and down 3.38% so far this year, closing at 2509.59.

Interest rates continued their slow but seemingly inexorable rise as the 10-year U.S. Treasury note yield climbed 0.47% to 1.929%. The 30-year Treasury climbed to 2.38% mid-week but ended the week at 2.249% keeping the Treasury yield curve on a positive slope. As the business week ended, West Texas Intermediate crude oil (WTI) had declined 2.22% to $91.82 now having priced in a Russian invasion as a near-certainty.

The Economy

While the buildup of Russian troops around Ukraine dominated the headlines, beneath the noise, the U.S. economy shows every sign of driving on. A degree of clarity emerged about what the Federal Reserve planned to do at their March meeting after rumors and at least one board-member's speech suggested a half percent rise in short term rates. It now appears that the rise will be a much more moderate 0.25%, probably followed by several more at that rate. That news when combined with other positive economic news, seemed to be laying the ground for a general increase in market levels. Then the other shoe dropped. With the number of Russian troops poised at the border now up to 190,000, and the U.S. warning that war was eminent, traders and pundits could be forgiven for focusing more on what looks more like Eastern Europe in 1938 than anything else.

Retail sales jumped a seasonally adjusted 3.8% in January, a month when we normally see a sales decline. That jump was the largest one month rise since last March when the last round of pandemic-related stimulus was being distributed to households. The gains were across the board with new purchases of vehicles, furniture, and building materials leading the way. At the same time, seasonally adjusted factory, mining, and utility output increased 1.4% for the month. Manufacturing output rose too, up 0.2% for the month.

The back side of those retail sales increases, the Producer Price Index, a measure of wholesale costs, was up 1% after a mere 0.4% rise in December. Looking deeper into that report from the Labor Department revealed that services prices were up 0.7% while the price of wholesale goods rose 1.3%. The underlying driver appeared to still be the cost and limitations on getting the things we want to buy from where they are made to retail outlets. Energy continued to both lead and drive the price increases. The price of oil, which drives the cost of transportation, is up 27% so far this year, and that is impacting almost everything. The COVID Omicron surge in January contributed to the price increases too, as the people needed to move, warehouse, and deliver all the things we buy, were in short supply with a record percentage of the workforce calling in sick during the month.

Meanwhile, the odds and ends of good economic news continued to proliferate. The supply chain issues that have plagued the economy and driven up retail prices for the last year appear to be easing. The Philadelphia Federal

Reserve Bank reported that its January survey found that wholesale and raw materials deliveries were speeding up significantly. Moody's Back to Normal Index rose from mid-January's 89.4 to 91.2 as we passed through the middle of February with anecdotal retail data suggesting that as Omicron recedes, Americans were sallying forth to stores and restaurants. U.S. home sales jumped 6.7% in January, again a measure that commonly declines in the first month of the year.

Just in case you thought the current bout of high inflation was somehow something our government caused and is only happening in the United States, the United Kingdom is not only experiencing the highest inflation in over 40 years, but its government is warning that the year over year inflation numbers are expected to rise to 7.9% within the next few months.

The bottom line for the underlying economy remains the same as the American economy appears to be spinning up for additional solid growth. The big wild card is Russia. An invasion of Ukraine is very likely to cause a short-term panic in the markets, with some potential for longer term effects as we embargo oil and other materials from there. Strictly from an economic perspective though, our economy has more than sufficient momentum and fuel to ride over a bump caused by war in Eastern Europe. Our advice is to be sure you have adequate dry powder, then buckle down to ride this one out.

Until next week, we remain focused on creating solid long-term returns, excellent service, and general caring about what you need and want in a complex economic environment.

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