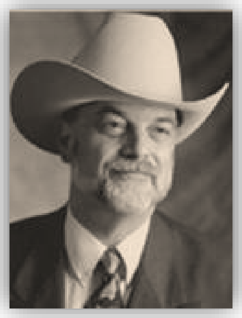

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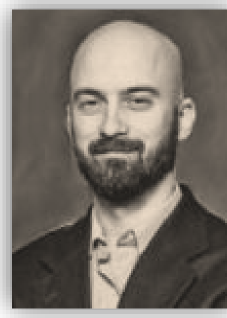

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March 4, 2022

TPWC Market and Economic Update

The Markets

The market week ending on March 4 was rough. The U.S. stock market, represented by the S&P 500 Stock Index (SPX) oscillated between lows in the upper 4200s to highs above 4400 then back down again. The tension was between excellent domestic economic news and the fact that a nasty war is being rolled out in Ukraine, driving oil and certain other commodities higher. The SPX ended the week at 4328.87, down a relatively modest 1.27% for the week and down 9.18% so far this year. Somehow, despite obvious fear surging through the market participants, it still managed to dodge the "correction" decline of 10% from its high at the beginning of the year and held on to a 12.67% gain for the trailing 12 months. Our favorite asset class, represented by the CRSP Mid-Cap Value Index, closed at 2503.36, down 0.84% for the week and only 3.62% since the year began.

The yield on the 10-year U.S. Treasury note appeared to disregard the trailing inflation numbers and fell about 12% to 1.742%. Oil was a major factor in the stock markets worries as West Texas Intermediate crude oil (WTI) soared a full 25% to $115.13 by the end of the week. Russia is a major oil supplier to the world, and it is getting harder and harder to do oil-related transactions there, cutting deeply into future oil supplies. Another market we don't usually follow, grains, were even more distressed than was oil as global prices for wheat jumped to their highest levels in 12 years. Ukraine supplies 13% of the world's corn and 12% of its wheat.

The Economy

The Russian invasion and the devastation it has wrought remains the focus in the headlines. Here in the U.S., we import relatively little from either Russia or Ukraine, but the rest of the world does, so prices on those things are soaring. Wheat prices have shot up from around $750 to over $1,200 per metric ton in just over one week. Oil prices are up over 52% from the beginning of 2022, and at least part of that rise is the restrictions on ocean shipping near the combat zone, compounded by a lot of companies not being willing to either finance or purchase oil and gas from Russia. Russia and Ukraine lead the global production of nickel, copper, and iron, not to mention key industrial commodities like neon, palladium, and platinum, all of which are vital for microchip production. Palladium, for example, is a critical component in products ranging from automobile exhaust systems to cell phones to dental fillings and it is now trading at $2,700 per ounce, an increase of 80% in just a couple of weeks. Another crucial element where Russia is the primary world supplier is titanium. Fortunately, we have largely diversified away from Russia for that metal, but as sanctions restrict supply, the price is rising. Here at home, the bottom line is that Russia's invasion of Ukraine is going to create global shortages in a lot of commodities, and that means the price will rise here. Buckle your seat belts and get prepared for prices to go up for food, transportation, manufacturing, and just about everything else.

Domestically, the economic news was about as good as it gets. The Labor Department announced on Friday that U.S. employers had hired a net 678,000 new workers in February, a quarter million more than the consensus estimate. That same report raised the December and January new jobs numbers by 92,000. At the same time the unemployment rate dropped to 3.8%, closing in on the numbers we saw just before the pandemic. That fall in the unemployment rate is even more impressive when we consider that the economy added over 300,000 new workers in February. In a strange type of good news, average hourly wages only rose one cent, to $31.58 in February, signaling that the dreaded "wage-price rise spiral" was not occurring. Add to that the news that there were only 215,000 layoffs in the last week of February, and the primary evidence is in place that the U.S. economy remains on a tear.

In a critical piece of economic news that probably won't make the headlines now or ever, the Labor Department also reported that U.S. worker productivity rose by an astounding 6.6% in the fourth quarter of 2021 as output increased 9.1% and hours worked increased 2.4%. Those numbers are critical because in the long-term, our GDP, the heart of our strength, is based on the number of workers times the average hours worked times productivity. Yes, we do measure it primarily by what we purchase, minus imports, but when our businesses are increasing productivity at a rate like that, we are in the process of winning the global economic competition race. China has a lot more people working, but our productivity per worker is about four times that of China and, as evidenced by that report, rising much faster than theirs.

In the short term, don't be surprised if the first quarter GDP is anemic and we continue to see high inflation numbers for a few more months. January's weather and the Omicron wave are going to have an impact, as will the war in Europe. Longer-term, the underlying foundations of the U.S. economy have not looked this good since the 1980s. We may be headed back into the Cold War, but we are positioned to win it.

Until next week, rest assured we are watching the markets, the economy, and your portfolios, all the while endeavoring to provide you with superb, fiduciary investment advice, portfolio management, and caring, personal, service.

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