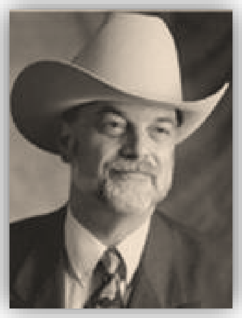


THE PERSONAL WEALTH COACH®

An SEC Registered Investment Adviser

Jeffrey W McClure CFP® | *Jacob A McClure* CIMA®

PO Box 1029 / 918 N. Main Street
Salado, TX 76571

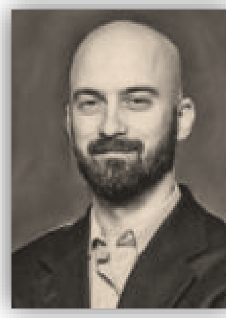
(254) 947-1111
(800) 914-7526

Serving Investors Since 1982

www.tpwc.com

jeff@tpwc.com

jake@tpwc.com



March 18, 2022

TPWC Market and Economic Update

The Markets

With all the noise about Russia's invasion of Ukraine and the resultant coming shortages and high prices for critical commodities previously supplied by Russia, not to mention a 40-year high in reported inflation, and the Federal Reserve's announcement of higher interest rates, any reasonable person could be forgiven for assuming that the stock market would have taken a hit for the week. Just to show that the markets do not follow our intuitive assumptions, the S&P 500 Stock Index (SPX) rose an astounding 6.16% closing on the 18th at 4463.12, soaring out of last week's "correction" with a flair. It is still down about 6.36% in 2022, but up over 14% from a year earlier. Our other stock market indicator, the CRSP Mid-Cap Value Index, turned in a weekly gain of 4.14% to close at 2552.16, down only 1.74% this year.

In this week that saw the first Federal Reserve interest rate increase since 2018, the yield on the 10-year, U.S. Treasury note put in a healthy rise of 7.6% to 2.153% as the 30-year bond yield moved up in tandem to 2.427%, keeping the Treasury yield curve in a nicely positive slope. West Texas Intermediate crude oil (WTI) fell another 3.66% to end the week at $105.10, down over 15% from recent highs, but still up about 39% this year and up 71% from this time last year.

The Economy

Amid the week's *sturm and drang* (thunder and lightning) the underlying major economic news was easy to miss. First, the Federal Reserve Board, as widely expected, raised short term rates 0.25%, the first such increase in four years. More, in the post-meeting press conference, Chairman Powell indicated that he estimated there would be six more increases this year, which would take short-term interest rates to at least 1.5%. The consensus of economists' estimates suggests that by sometime in 2023, short term rates will peak somewhere between 2% and 3%. What the Fed is looking for is a "neutral" short-term rate that neither stimulates nor depresses economic activity. At the same time, the Fed is widely expected to start to "shrink the balance sheet", a term that means they will begin absorbing money from the economy rather than, as they have for the past two years, infusing money into the economy. The objective is to reduce loan activity and soak up excess liquidity and in doing so, curb longer-term inflation. Balance sheet shrinking tends to raise longer-term rates, so hopefully we will continue to see a positive yield curve.

Notably, the stock market started rising immediately after the interest rate increase announcement. Chairman Powell and other members continue to state that they believe the current high level of inflation was caused by external issues and not by a wage and price spiral generated internally. Given the near-record low unemployment and extremely healthy economic growth in the U.S. economy along with very limited wage increases, they believe it is prudent to stop any attempt to stimulate economic growth, but the Board sees no reason to attempt to counter the natural growth of the economy.

As evidence of that healthy economic growth, the IHS U.S. Manufacturing Purchasing Managers' Index came in at 57.3 for the month of February on a scale where numbers above 50 indicate growth and below 50, contraction. That reading is certainly lower than the unsustainable readings in the 60s we saw last year but is still exceptionally high by historical standards. Retail sales were reported by the Census Bureau to have also grown at a slower pace than we saw in 2021, up 0.3% in February, but were revised up to 4.9% for January. That average monthly growth of 2.6% so far this year equates to an annual retail sales growth of about 15.6%, compared with 16% growth over the last twelve months. Both the manufacturing and retail sales numbers continue to indicate our economy is on a tear, growing about as fast as our infrastructure can support.

On Friday, the 18th, one of our most carefully followed data points was released as the Conference Board announced their Index of Leading Economic Indicators (LEI) rose 0.3% in February with the critical six-month average up at a 4.3% annualized rate. As we have mentioned before, the LEI is the most reliable indicator of the U.S. economy's future status 6 to 18 months into the future. The LEI has fallen substantially for several months before every recession over the past forty-plus years. That it is up and has risen substantially over the past six months is unequivocable good news.

The bottom line is that the U.S. economy continues to drive ahead, growing at about as fast a rate as is healthy. The Russian invasion of Ukraine will almost certainly mean that higher prices for a host of goods and services are in the works, but externally caused price rises have historically been taken well in stride by our economy and have proven to be temporary. The future is always uncertain, with Russian actions as the wild card, but so far from a purely economic perspective, the future looks as good or better than any we have seen in the past half century of careful observation.

Until next week, be assured that we are busily researching and doing our very best to provide you with the very best service, advice, and fiduciary portfolio management possible in this universe.

Jeffrey W. McClure CFP®
M.S. Personal Financial Planning

Jacob A. McClure, CIMA®