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April 1, 2022

TPWC Market and Economic Update

The Markets

If there is anything clear about the week that ended on April Fool's Day, or for that matter the year so far in 2022, it is that the stock market is having a very hard time making up its collective mind, presuming that it has one. For the week, the S&P 500 Stock Index (SPX) managed to turn in a rise of 0.06% to close at 4545.86. That small rise leaves it down 4.62% year-to-date but up 13.08% from this time last year. It ended the first quarter down about 5.5% but having recovered about 60% of the loss it showed back in mid-March and is up over 5% in the last month. Our other followed equity index, the CRSP Mid-Cap Value Index, declined 0.16% for the week to 2596.57 but is down only 0.03% in 2021.

The U.S. 10-year Treasury note yield slipped downward about 4% for the week to end at 2.381%. That put it in the awkward position of having a lower yield than the 2, 3, 5, and 7-year notes with the 3-year note leading the pack with a yield of 2.623%. Fortunately, if one looks at the traditional yield curve markers, the 90-day T-bill, the 10-year note, and the 30-year bond, all still looks right with the world as the 90-day yield is 0.515%, with the 30-year bond at 2.435%. All that taken together means that the yield curve is not "inverted," even though in the short to mid-range it is clearly upside down. The price of West Texas Intermediate crude oil (WTI) put in a surprising but pleasant decline all week, dropping about 12% to \$99.34 per barrel as President Biden announced there would be substantial releases from the U.S. Strategic Oil Reserve. It is now down about 20% from its March high of \$123.70.

The Economy

The economic news was dominated all week by pundits proclaiming a yield curve "inversion." As is all too common, the pundits appeared to have not done their homework. What was missing from the news accounts was that first, the yield curve needs to really be inverted and second, an actual inversion must last for at least a month before it becomes about 80% predictive of a coming recession. Moody's Analytics defines an inverted yield curve as one in which the 90-day T-bill yield is higher than of the 10-year Treasury note, so at least according to their definition, there is no inversion and certainly not one that has lasted long enough to cause alarm. The other reasonably reliable recession predictor, the Index of Leading Economic Indicators, remains positive. Another, if less precise indicator is the mood of the press and investors. Just before a major recession and the associated bear market in stocks, investors tend to be unreasonably optimistic. What we are seeing now is raging pessimism that looks a lot more like the bottom of a bear than the top of a raging bull.

Meanwhile, in the real economy, the Labor Department reported U.S. payrolls grew by 431,000 in March and the unemployment rate fell to 3.6% even as the labor participation rate in the core working ages of 25-54 rose to 82.5%. All those numbers are very close to where they were in February 2020, just before the pandemic hit. For all intents and purposes, the U.S. labor force has made a full recovery. Hourly earnings were up 5.6% from this time last year even as the Fed reported the core PCE index, probably the most accurate inflation indicator, was up 5.4%. Taken together, it means that real wages are up a bit more than inflation, and that tends to be good news.

In another bit of good news, the Federal Reserve reported that private nonresidential business investment (PNBI) grew 7.4% in 2021 from the previous year. PNBI is one of the most reliable indicators of economic and productivity

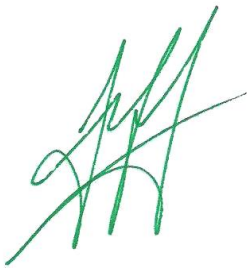
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growth one to two years out and a 7% rate is the level we commonly see at the bottom of a recession rather than late in an economic expansion.

As we forecast at the beginning of the year, most signs are pointing to first quarter GDP growth numbers to likely be very low, not because the economy is slowing down, but because of several technical factors. U.S. businesses built inventories at a near-record rate in the fourth quarter as the GDP grew at an annualized rate of 7%. When the first quarter GDP number comes out, it will be a measure of how fast growth occurred in that quarter when compared to the torrid pace we saw at the end of last year and will have had year over year inflation subtracted from it. If the number is even a little positive, it will simply indicate that we are still on a tear rather than in a slowdown.

The bottom line is that our economy is still charging ahead at a literally record-breaking rate, interest rates, while rising are still well below historical norms, and both employment and wages are still growing. Combine that with the unreasoning rampant worry and pessimism we see, and we must conclude that the economic outlook looks pretty good for the near future.

Until next week, know that we are remaining hard at work sorting through investments, answering questions, and doing our very best to provide high quality, personal, individualized fiduciary portfolio management, investment advice, and personal service to our you, our clients.



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