THE PERSONAL WEALTH COACH®

An SEC Registered Investment Adviser

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TPWC Market and Economic Update

The Markets

The S&P 500 Stock Index (SPX) turned in a disappointing week to begin its quarterly earnings season. Bank stocks led the decline as comparisons with last year's furious burst of mergers and new offerings faded while interest rates increases have not yet generated the income from the difference between loan and savings rates on which banks traditionally thrive. The SPX closed at 4392.59, down 2.39% for the week and down 7.84% year to date. Even the one-year return of the SPX was anemic with a rise of only 5.33%. Our other favorite equity indicator, the CRSP Mid-Cap Value Index sagged 0.15% to 2580.25, down 0.65% this year but up a respectable 7.95% from last year at this time.

The ten-year U.S. Treasury note yield continued its relentless climb, ending the week at 2.828%, up 4.277%, marking a return to the range where it was before the pandemic. The increase in the 10-year note yield was more than academic as it now is higher than any earlier maturity but below the 2.920% yield on the 30-year bond. That condition in which the longer maturing Treasury securities have higher yields is called a "positive yield curve" and puts to bed the chorus of alarm about a yield-curve inversion. The price of West Texas Intermediate crude oil followed the T-note yield upward, rising 8.81% to $106.48 as the European nations appeared to be getting serious about cutting the flow of Russian oil.

The Economy

The headline economic news this week was the U.S. Bureau of Labor Statistics monthly Consumer Price Index (CPI) report. The topline number was a shocking twelve-month rise in cost of living of 8.5%. The one-month rise was even more scary at 1.2%. If that kind of inflation continued for a full year, prices would be up 14% by next March. Digging deeper, as it often does, revealed some different news. First, over time, the topline CPI is an unreliable figure as it is deeply affected by the price of food and fuel, both of which are extremely volatile. The so-called "Core-CPI" with those numbers removed was still up a depressing 6.5%, but the one-month Core-CPI only rose 0.4%. The important bit about that number is more recent monthly inflation numbers are declining. Firms, like Moody's Analytics, that have been consistently accurate in their economic forecasts, are suggesting that the one-year inflation number may have peaked and as the year unfolds, the 12-month numbers should come down. The prime culprits driving the high inflation numbers continue to be the price of used cars and trucks, petroleum, and the cost of houses. As we have written before, those areas are unlikely to continue to rise as fast over the next twelve months as they have over the last year, so the potential is there for inflation to moderate.

While the CPI was the headline, the underlying economics chatter all week remained about whether the Federal Reserve can engineer a "soft landing" for the economy as it rases rates and effectively sells bonds from its inventory, both of which tend to make borrowing more expensive and slow economic activity. The goal of the Federal Reserve, as expressed by Chairman Powell, is to raise rates across the spectrum to the point where they are "neutral" and no longer stimulate economic growth, but to stop raising rates before causing economic growth to reverse into a recession. Lael Brainard, the nominated Vice-Chairman of the Fed, spoke during the week and expressed confidence that the Fed can indeed slow the growth rate without reversing it, echoing Chairman Powell's sentiments. History is replete with examples of how the Fed hit the brakes too hard and a recession ensued, but the underlying causes of

inflation were different then than now, so an argument can be made that past performance is not a good indicator for this time around.

The higher rates are already beginning to show in the real world as the average 30-year mortgage in the U.S. rose to 5% for the first time since 2011. Higher rates did not appear to slow consumer spending in March though as U.S. retail and restaurant spending rose 0.5% at a 6% annual rate and was up 12.9% for the first quarter from a year ago according to the Census Bureau. That pocket-book indicator was probably created by the factor that the University of Michigan reported as its consumer sentiment survey showed that consumers are feeling better about the economy as its index rose 10% from March's 59.4 to April's 65.7.

Once more, the battle continues between the negatives of war, supply-chain disruption, high inflation, and rising interest rates on one side and the very positive reality that the U.S. economy is running at full speed and has a lot of momentum on the other. One thing we can say is that the immediate future does not look like it will be boring. Expect a lot of variances in market values and in the underlying economy, but the signs that historically have preceded economic downturns and bear markets are just not there.

Until next week, have a good Holy Weekend and know that we and our loyal staff here at The Personal Wealth Coach are working for you and earnestly striving to provide you with the best fiduciary advice, portfolio management, and service possible.

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