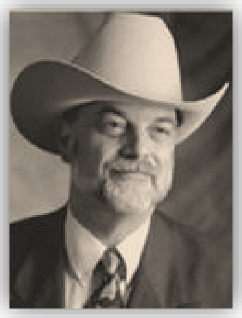

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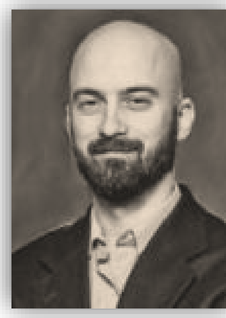

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April 22, 2022

TPWC Market and Economic Update

The Markets

On Thursday morning the 21st, the S&P 500 Stock Index (SPX) opened well up from the previous day's close at about 4511, putting it back above the psychologically important 4500 level, but for the rest of the week it gradually sunk until it closed on Friday at 4271.78, down 2.75%. That decline drops the SPX once more into a "correction," down 10.37% year-to-date. Even when we look back a full year, the number is not pleasant with a one-year gain for the Index of only 2.19%. Perhaps more importantly, the SPX is now below its 300-day moving average. Our research suggests that if it stays below that moving average for two weeks, more declines may lie ahead. Of course, this is the second time this year that the market has been in a correction and the last time it was down more than 10% it came back with a vengeance. Keep watching for further developments. The proximate cause of the stock market's decline, at least according to the pundits, was that there was a selloff in the bond markets. So much for the theory that when stocks go down, bonds go up. The other equity index we follow, the CRSP US Mid Cap Value Index, declined 1.23% for the week, to close at 2548.38 but is down only 1.88% from its high point at the beginning of the year, and is up 5.75% from this time last year.

The yield on the 10-year U.S. Treasury note rose 1.24% to 2.90% at the close of the business day. The bright side, if there is one, is that with the 30-year T-bond yielding 2.947% and the 2-year T-note at 2.697%, the yield curve remains positive, so the warning flags are not flying there. West Texas Intermediate crude oil (WTI) prices backed off a bit to $101.15, down about 5% for the week, but still up a whopping 63% from this time last year.

The Economy

The economic news headlines were about members of the Federal Reserve Board warning of a half-percent rise in short term rates at the Fed's next meeting in May. When Chairman Powell repeated that warning on Thursday morning it put the stock and bond markets on a downward slope. The Federal Reserve is focused on raising interest rates to an economic "neutral" where they neither stimulate nor slow economic growth. That equates to moving overnight Federal Reserve loan rates to somewhere around 2.5% to 2.75%, about where they were before the pandemic. Why moving to "neutral" would cause a panic in the markets is a mystery, but apparently there are some who believe that the Fed will go too far and slam on the economic brakes.

What we believe to be the important economic news was largely ignored in the press. The Conference Board released its Leading Economic Index this week and it reported the index had risen 0.3% in March following a 0.6% increase in February and is up 1.9% over the trailing six months. The Conference Board also projected a 3.0% growth in U.S. GDP in 2022. That would be slower than 2021's 5.6% but still higher than the pre-pandemic 10-year average. The official announcement was "The recent behavior of the leading indicators points to continued, but moderate, economic growth in the near term."

By now we were hoping to see an abatement in the supply chain issues but it is looking more and more like China's draconian city-wide lockdowns are going to make the situation worse before it gets better. China is stuck in a "no-COVID" policy with a relatively ineffective vaccine and low vaccination rates. Every time it relaxes its totalitarian quarantines the disease, and hospitalizations, surge, but trying to kill the disease by lockdowns is killing their economy and hurting ours. A combination of China's inept policies and the war in Ukraine are likely to continue to drive inflation, so expect further bumps in the road.

Meanwhile, all indicators are that U.S. consumers are still flush with cash and are continuing to both shift from purchasing so many goods to spending more on services. In an economy like ours where GDP is largely derived from consumer spending, the fuel and optimism are there to power us through at least for the rest of this year. Goldman Sachs and JP Morgan both put the probability of a recession in the next two years at only 35% and both agree that if we have a recession sometime next year, it very likely will be both mild and short.

The oddly counterintuitive good news is that while the historically reliable indicators are not raising red flags, there is a lot of worrying going on among investors and market reporters. The pessimism we see is more typical of the bottom of a bear market than the top of a bull. Major bear markets and recessions have been universally preceded by unconstrained optimism and months of falling leading economic indicators. As we have forecast before, things are and are likely to remain bumpy for some time, but the underlying economy is still healthy and going strong.

Until next week, we remain faithfully dedicated to providing you and your families with the best possible fiduciary wealth management, advice, and service.

Your obedient and loyal servants,

Jeffrey W. McClure CFP®
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