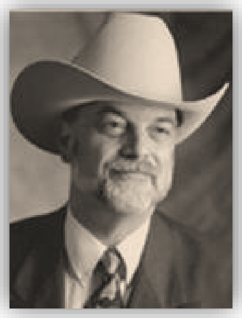

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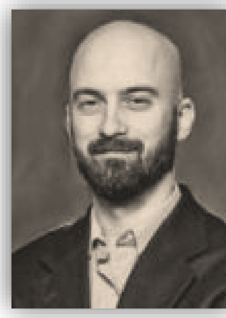

April 29, 2022

TPWC Market and Economic Update

The Markets

To say that the week that ended on the 29th was "interesting" would be to make an understatement of historic proportions. The S&P 500 Stock Index (SPX) lost 3.27% to close at 4131.93. That disappointing slump left the SPX down 9.11% for the month of April, 13.31% this year and 1.18% from this time last year. The stocks that made headlines on the way up, like Robinhood, Zoom, DocuSign, PayPal, Netflix, Meta (formerly Facebook) and others were down more than 50% from their highs. The other equity index we follow, the CRSP US Mid Cap Value Index ended the week down 3.58% at 2457.2 and is now 5.39% lower than it was as the year began but still has a 1% gain for 12-months. The broad market is still in correction territory with fears of a China market crunch, the Fed raising rates too fast, and an unpredictable Russia creating a lot of fear on Wall Street.

The yield on the U.S. Treasury 10-year note rose 1% for the week to 2.928%. The reputedly prescient Treasury yield curve remained positive, if only just barely as the 30-year T-bond finished the week above 3% while the 2-year note ended at 2.731%. West Texas Intermediate crude oil (WTI) slowly worked its way up 3.25% to $104.43 per barrel.

The Economy

The economic headline for the week was the report that the U.S. gross domestic product (GDP) was estimated to have contracted at a 1.4% annualized rate in the first quarter. First, let's get that number straight. Because the report is annualized, the real first estimate reported by the Bureau of Economic Analysis was that our GDP contracted 0.35%. Looking deeper, it became clear that even that small decline was a result of technical issues. The two big issues were that first, we Americans bought a lot of goods in the quarter, and much of what we bought was from other countries. Imports subtracted 3.2 points from the GDP estimate. The other big issue was that in the fourth quarter of last year, we had an unusually high 6.9% GDP growth, much of it, 5.3 points, generated by companies building up inventories. If we strip out the inventory and import issues, our GDP grew at a 3.2% annualized rate for the quarter according to Moody's Analytics.

The more recent data is distinctly positive. Just in the month of March, U.S. consumer spending, the prime engine that drives our economy, rose a seasonally adjusted 1.1% with personal income up 0.5%. Then there was inflation, and there we find some good news too. Probably the best measure of real consumer inflation is found in the personal consumption expenditure index (PCE). The core PCE rose 0.3% in March for the second month in a row. That geeky-sounding number is important because it says that core U.S. inflation so far in 2022 is only running at about a 3.6% annualized rate.

In another critical report, orders at U.S. factories for long-lasting (durable) goods rose 0.8% in March. At the same time, business investment is up 10% from a year ago. Both of those are longer-term indicators of where the economy is headed over the next year or so.

There was another bit of very counterintuitive good news as the American Association of Individual Investors (AAII) reported that an astonishing 59.4% of their members had a negative or bearish outlook on the stock market. Why is that good news? Well, the only times in recent history when investor pessimism has been this high was right at the bear market bottoms in March 2009 and in the fall of 1990, and both marked the turning point where a bear market became a bull market. As one investment newsletter writer commented, "It is so bad, it is good!" There are only five times when bearish sentiment has been in this range in the last half century or so, and all of them were within days of a market bottom. Whether it is different this time, only time will tell, but we are optimistic.

The same is not true everywhere. Both China and the European Union are concerned about a potential recession this year, even as the EU is facing the highest inflation in recent history. The anti-COVID lockdowns in China are the big wildcard right now. Much of what we manufacture in the U.S. has parts made in China and in many places there, the factories are at a standstill.

The bottom line is that the U.S. economy is still charging ahead at full steam in a world filled with more uncertainty than we have seen in a long time. Under the surface though, all the U.S. indicators are still positive.

Until next week,

Jeffrey W. McClure CFP®
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