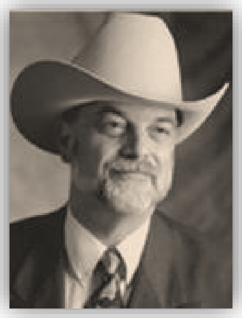

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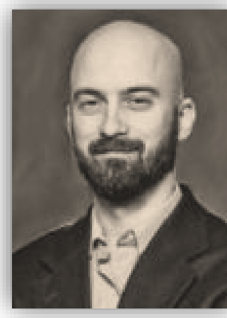

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May 6, 2022

TPWC Market and Economic Update

The Markets

The week that ended on May 6 was another one for the books. Reading the daily headlines about the stock market, a person could easily have concluded that a major market collapse was underway with terms like "panic selling" and "market selloff" being thrown about in large, bold print. The reality was very different. For the week, the Standard and Poor's 500 Stock Index (SPX) our preferred indicator U.S. stock market valuations, declined a miniscule 0.21%, closing at 4123.34. Yes, the market remains solidly in "correction" territory, meaning that it is down 13.49% from its high mark in early January and down 2.58% from this time last year, but market history is replete with corrections, most of which, like this one, seemed to spring out of nowhere and then "uncorrected" nicely. Critically, Morningstar posted on Friday that, in their opinion, the market is now trading at a 12% discount to fair market value. The other equity index we follow, the CRSP US Mid Cap Value Index, closed out the week at 2472.81, *up* 0.64%. It is still down about 4.8% from its high in January and down 1.12% for 12 months, but we fail to find any signs of panic.

The yield on the benchmark 10-year U.S. Treasury note rose 7.3% to 3.143%. Because the value of bonds falls as interest rates rise, the result of the ongoing rise in rates can be seen in the 12.39% decline this year in the S&P 500 Bond Index. The good news is that the Treasury yield curve remains generally positive. West Texas Intermediate crude oil (WTI) rose too, up 5.92% to $110.33 as it became ever more obvious that Russian oil was being forced out of the global market.

The Economy

The economic headlines for the week were mostly about the Federal Reserve announcement that the Fed's short-term rates were being raised 0.5% and that Chairman Powell suggested that there were no 0.75% increases on the table for now. That caused the market to surge upward, but then came the good economic news that spooked the stock and bond markets. The Labor Department announced that the U.S. economy added 428,000 jobs, the 12th month of job growth topping 400,000, while the unemployment rate held steady at 3.6%. Labor also reported that in March we had 11.6 million unfilled job openings and an astonishing 6.7 million people hired while 4.5 million workers quit their jobs. More people employed sounds like a good thing, but stock traders went into a mild panic out of fear that the great employment report would drive the Federal Reserve into raising rates too fast and too far, thereby creating a recession at some point in the future. This is one of those times when good news is seen by the markets as bad news. Of course, when stock traders are in this kind of a mood, any hint of bad news would also be seen as bad news. We have been here before.

Another bit of good news that the markets saw as "bad" was the report from the Institute for Supply Management (ISM) that its non-manufacturing index came in at 57.3 on a scale where numbers above 50 indicate growth in business activity. The drivers were reported to be a surge in new orders and employment. As if that weren't enough "bad" good news, the Commerce Department announced that factory orders for U.S. Manufactured goods rose 2.2% in April. Non-defense durable goods orders minus aircraft, a key indicator of the future direction of the economy, rose 1.3% in March, revised upward from an earlier 1% estimate. The backside to those numbers was that the Employment Cost Index (ECI) rose 1.4% in March after remaining well below inflation for the previous year. That last number was scary in that the Federal Reserve watches the ECI carefully for signs of the dreaded "wage-price spiral" in which rising wages create rising prices, which in turn spurs wage growth. So far, over the past year, wages have lagged well behind prices, but this does bear watching.

The final doses of bad-good news came as the Census Bureau reported that domestic consumer spending for "real final sales" rose at annualized rate of 3.7% in the first quarter of this year. Notably, that number has been adjusted for inflation, so it is a strong indicator that our economy is still growing at breakneck speed. In an economy like ours where consumer spending is the main driver, historically, that high of a number has never been followed by a recession in the next year.

The bottom line remains that the U.S. economy is running at an astonishingly high rate of speed and has plenty of momentum and fuel to keep on doing so for some time to come. At the same time there is a very healthy, if irrational, strong sense of worry and fear in the markets that counterintuitively suggests that better times lie ahead.

Until next week we remain diligently at our posts, working hard to bring you the best service, fiduciary portfolio and investment management, and advice.

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