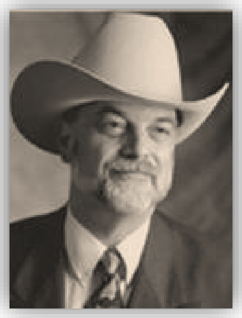

THE PERSONAL WEALTH COACH®

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TPWC Market and Economic Update

The Markets

Where the stock market is and how it has behaved depends on in what part of the market one is invested. Our preferred broad market indicator, the S&P 500 Stock Index (SPX), surged down and up for another headline grabbing week. It came close to crossing the 20% loss that defines a bear market on Thursday, only to power back above the 4000 level on Friday, closing at 4023.89, down 2.41% for the week, 15.57% so far this year and 3.59% from a year ago. It remains in a correction rather than a bear condition despite brutal selloffs in last year's highest-flying stocks. The other equity indicator we follow, the CRSP Mid-Cap Value Index, ended at 2426.83, down 1.86% for the week, 6.57% so far this year, and 2.16% from a year ago, remaining above the 10% loss that defines the beginning of a correction. At the other end of the stock market, the NASDAQ Composite Index, loaded with large, tech stocks that soared last year, is now down 24.54%, putting it solidly in bear market territory.

The closely watched bond market benchmark, the 10-year U.S. Treasury note yield, fell 6.41% to end the business day at 2.929%. The week's shuffle in interest rates left the Treasury yield curve still positively sloped, an indicator that has historically suggested better times ahead. That positive slope at seven years and longer is not particularly steep, but still present. West Texas Intermediate crude oil ended the week at $110.46 per barrel, down slightly from last week, but still signaling that high fuel prices are likely to stay with us for some time.

The Economy

There were some signals that the recent burst of high inflation may have peaked, but the number remains high by most measures. The Labor Department reported that the one-year change in the Consumer Price Index (CPI) was 8.3% last month, after coming in at 8.5% in March. April's number is still astonishingly high, but the glint of good news was that for the first time in eight months, it was lower than the previous month. The less volatile and more reliable "core" CPI was up 6.3% year over year, and 0.5% for the month. The main driving factors continue to be the price of energy, up 30% and used motor vehicles up 22.7%.

Looking deeper, there appeared to be some confirming evidence that while inflation is still roaring along, it is not getting worse. The Producer Price Index for final demand, a measure of wholesale prices, rose 0.5% in April after soaring 1% or more in each of the preceding three months. Further supporting that trend was a surprising report from the Bureau of Labor Statistics that import prices were level in April from the previous month while U.S. export prices rose 0.6%.

There are two factors driving inflation about midway through the second quarter of 2022. The prime driver is the soaring cost of motor fuel. With COVID restrictions in the U.S. winding down, demand is up across the board, but the supply of gasoline is not rising, and the available supply of diesel fuel is seriously depressed. U.S. refineries have still not fully recovered to the level of production seen before the pandemic and a significant portion of their diesel production is being exported to Europe as Russia's petroleum exports are being restricted both by European countries and in some cases by Russia itself. When demand rises and supply does not go up, prices rise. The record high price of diesel fuel for commercial vehicles is driving transportation and delivery prices up and that is being reflected across the economic spectrum.

The second factor driving the inflation train remains the draconian city-wide lockdowns occurring in China. As we have written before, much, if not most of what is bought and even manufactured in the U.S. has one or more critical components made in China. Again, a shortage of goods combined with a strong demand for those goods in our growing economy results in prices rising.

In other bits and pieces of economic news, the loss in cryptocurrencies now exceeds $1 trillion as Bitcoin is down 59% and even TerraUSD, a cryptocurrency that pledged to hold to $1 per coin, fell by more than half. Even Tether, the other major "stablecoin" whose supporters have touted as a replacement for the dollar, fell below $1 per coin. According to the *Wall Street Journal*, the average 30-year fixed mortgage rate, as low as 2% a year and a half ago, is now 5.64%. Perhaps as a direct result, housing sales are starting to slow.

Despite the noise and negativity, all the historically reliable leading economic indicators are still positive other than the stock market itself. We recognize the negatives but remain optimistic for the long-term economy and market growth. We also recognize that we are in for a bumpy ride and things could get worse before they get better.

Until next week we remain dedicated to the highest level of professional service, fiduciary portfolio management, and honest advice for our clients.

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