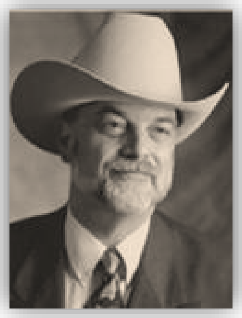

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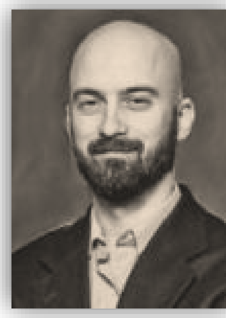

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May 20, 2022

TPWC Market and Economic Update

The Markets

The week ending on May 20 was another weird one in the markets. If this keeps up much longer, weird is going to become normal. The S&P 500 Stock Index (SPX), the quite flawed but possibly best indicator for the U.S. stock market behaved like a plunging horse all week but finally ended at 3901.36, down 3.06%. That leaves it down 18.14% this year, down 6.12% from a year earlier, and 18.6% below its record January close. The key was that it did not end the week down more than 20%, and thus into a bear market, despite having crossed that line in the early afternoon on Friday. Quite interestingly, it appeared that it was the short dip into bear market territory that sparked the rally that took the Index back to a gain for the day. To put this in perspective, if we go back three years to May of 2019, before the last recession and bear market, and come forward to today, the SPX has gained a very respectable 37%, giving it an 11% average annual rate of return for that period. For whatever it is worth, that rate is about its average over the past 100 years or so. Thus, despite the panicky headlines, if you are a long-term investor the last three years of pandemic, recession, bear market, recovery, and now war and more pandemic have evened out to be quite average. The other equity index we follow, the CRSP Mid-Cap Value Index closed at 2373.67, down 2.18% for the week, 8.61% from its high this year, and 3.39% from this time last year.

The yield on the 10-year U.S. Treasury note slipped back about 5% to 2.789% but left the Treasury yield curve still in positive territory, boding well for the future. The price of West Texas Intermediate crude oil (WTI) inched upward about 2% to $112.70 for the week, meaning the pain at the pump will continue.

The Economy

The decline in the various indices that reflect the level of the stock market were the headline grabbers for the week. A dig into that event reveals that about half the of market fall is a result of the price plunge of just eight large growth companies, Microsoft, Apple, Amazon, Alphabet (formerly Google), Meta (formerly Facebook), Tesla, Nvidia, and Netflix. Several of those stocks were down well over 40% from six months ago with Netflix leading the way, down about 72%. On the other side of the coin are the somewhat smaller, value-oriented stocks from the index we mentioned above, down only 7.61% in the last half year. Whether a given investor is staring a bear market in the face or has yet to cross over into a "correction" depends entirely on where they are invested.

This rather severe market correction is serving its purpose well. Among the worst hit issues are the Special Purpose Acquisition Companies (SPACs), initial public offerings that took in money without stating where it would be invested in the economy, but with a promise to find something, somewhere. Another cleanout was in cryptocurrency issues. Some have simply vanished while the most popular are down more than half.

A little heralded landmark was crossed during the week as the official U.S. death toll from COVID-19 rose above one million. That puts the total U.S. COVID deaths higher than the total from AIDS plus the 1918 influenza pandemic and all in the span of just over two years. Meanwhile, infections in the U.S. are rising once more and the economic effect is being felt across the world as about three hundred million people in China, the equivalent of the entire U.S. population, are in lockdown because of the virus.

Meanwhile, the underlying U.S. economy keeps driving forward. The Conference Board released its index of Leading Economic Indicators (LEI), and, in the words of its Senior Director of Economic Research, "Overall, the US LEI was essentially flat in recent months which is in line with a moderate growth outlook in the near-term." The Labor Department reported that unemployment remained steady at 3.6%, 2.4 points lower than a year ago as continuing unemployment insurance claims fell to the lowest level in 50 years. The Federal Reserve reported that U.S. industrial production increased 1.1% in April, the fourth month of increases greater than 0.8%, and was 6.4% ahead of where it was a year ago. The Commerce Department chimed in with a report that retail sales in the United States rose 0.9% in April at an annualized rate of 11.35%. The average U.S. home price hit a new record high, $391,200, although the rate of home sales has begun to moderate in the face of those high prices and rising mortgage rates. To top off the good economic news for the week, Bloomberg Economics is forecasting that U.S. economic growth in 2022 will come in higher than that of China for the first time since 1976. The forecast is for U.S. GDP to grow 2.8% while China's will only be 2%.

As we have written before, we were overdue for a correction and now we have one, in spades! Despite the market numbers, we remain optimistic. Real long-term stock valuations tend to be driven more by what is happening on Main Street than on Wall Street and Main Street looks pretty good from here.

Until next week, know that we remain alert, aware, and ready to serve, and fulfill our fiduciary duty to you, so don't hesitate to call, email, or write. We are here for you and only for you.

Your loyal servants,

Jeffrey W. McClure CFP®
M.S. Personal Financial Planning

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