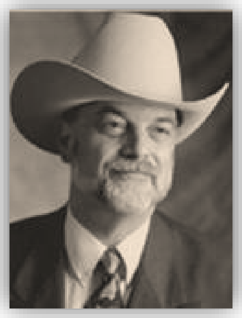


THE PERSONAL WEALTH COACH®

An SEC Registered Investment Adviser

Jeffrey W McClure CFP® *Jacob A McClure* CIMA®

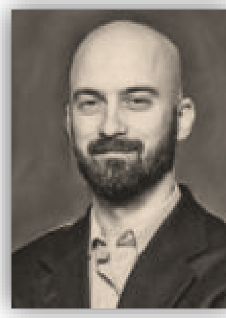
PO Box 1029 / 918 N. Main Street
Salado, TX 76571

(254) 947-1111
(800) 914-7526

Serving Investors Since 1982

www.tpwc.com

jeff@tpwc.com jake@tpwc.com



May 27, 2022

TPWC Market and Economic Update

The Markets

There is a lot one can say about the past few weeks, but "boring" is certainly not on the list. The S&P 500 Stock Index (SPX) turned in a stellar week as it approached the Memorial Day weekend by rising to 4158.24, up an impressive 6.58%, half of its long-term average annual gain in a single week. It does though remain down 12.76% so far this year and is down 1.09% from a year earlier. Still, if there was a contest for bear-dodging, the SPX appears to be headed for first place. That rather spectacular rise also kicked the three-year average annual return of the Index up to 14.75%, well above its very long-term average. Not to be outdone, the other equity index we follow, the CRSP Mid-Cap Value Index, rose 6.54% to 2528.82, leaving it down only 2.64% this year and up 1.87% from a year ago.

The yield on the 10-year U.S. Treasury note fell to 2.745%. With the 2-year note at 2.468% and the 30-year bond yielding 2.970%, the Treasury yield curve remains still well in positive territory, suggesting better times to come. Unhappily, the price of a barrel of West Texas Intermediate crude oil (WTI) rose another 2% to $115.12 as summer vacation driving started, increasing demand, and Russian oil exports continued to decrease. The good news is that the U.S. is selling record amounts of oil and natural gas internationally. The bad news is that the global shortage is driving prices up both here and abroad.

The Economy

The economic news on the home front continues to be positive. The Bureau of Economic Analysis (BEA) announced that Personal Consumer Expenditures, the element that equates to about two-thirds of our GDP, rose a seasonally adjusted 0.9% in April, an annualized rate of 11.35%, while Personal Income rose 0.4% for the month, an annualized rate of about 5%. Obviously, spending rising that much faster than earnings is not a sustainable trend, but as we have noted in the past, Americans are sitting on record levels of cash, and it appears they are spending some of it.

There was another figure in the BEA release that was perhaps even more encouraging. In that report is the Federal Reserve's preferred inflation index, the Personal Consumer Expenditure Price Index (PCE). For the month of April, it rose only 0.2%, which equates to an annual inflation rate of 2.43%. The PCE is indeed up 6.3% from a year earlier, and even the "core" PCI is up 4.9%, but the data is consistently pointing to a decreasing rate of inflation as 2022 progresses. Consumer spending, focused over the past two years on "goods" appears to be continuing to shift to "services". That is a real positive as much of the inflation that we have seen over the past year appears to have been generated by an outsized demand for goods, or as we like to call it, "stuff."

One of the things that has driven the relatively extreme volatility in the stock market over the past couple of weeks has been the very disappointing earnings reports from Walmart, Target, and Best Buy. A deeper look into those earnings reports reveals that the big-box store chains saw increased revenues and sales. The reduced earnings came from the fact that they apparently put in outsized orders and paid a premium last year for what their customers were buying during the heart of the pandemic. As the pandemic has ebbed, their customers are shifting their buying to a new set of goods, leaving stores with a large inventory of unsold items. On the other hand, Dollar General, Dollar Tree, and even Home Depot reported rising sales and good profits because they did not or could not get as many goods during the supply chain disruptions.

It appeared that the rise in interest rates may be having its desired effect. The sales of new homes fell to a two-year low and home prices seem to be stabilizing. S&P reported that U.S. businesses saw a reduction in their rate of growth to something more sustainable. On a scale where numbers above 50 indicate expansion and below 50, contraction, and numbers above 55 are likely to be both unsustainable and inflationary, the S&P flash U.S. Manufacturing Index fell from 59.2 to 57.5 in May while the flash services index dropped from 55.6 to 53.5.

All is not well in the world though. While there is now a consensus among economists that the probability of a U.S. recession in the foreseeable future is quite low, China, the world's second largest economy appears to be experiencing one of the sharpest declines in economic activity in decades. More, Russia's invasion of Ukraine has driven the price of food-grains up about 40%. That grain shortage and price spike has the potential to destabilize much of the developing world.

The U.S. economy continues to charge ahead with plenty of fuel and momentum. The growth rate appears to be slowing to something more sustainable and inflation appears to be moving down. All in all, things continue to look good from where we stand.

Until next week we and our amazing TPWC team remain at our duty posts working hard to provide unequaled levels of service and the very best fiduciary portfolio management and advice. We will be taking Memorial day off. Have a good and safe Memorial Day weekend and take a few moments to remember what the day is all about. Many good men and women have died to secure for us the peace, prosperity, and liberty in which we live today. Offer up your thanks not only for them, but for those who they left behind who also paid a high price for what we enjoy here in the United States of America.

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

Jacob A. McClure, CIMA®