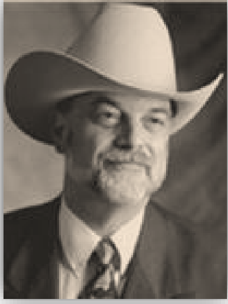

THE PERSONAL WEALTH COACH®

An SEC Registered Investment Adviser

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TPWC Market and Economic Update

The Markets

Our flawed if preferred guide to what has happened in that amorphous thing, we call the "stock market", the S&P 500 Stock Index (SPX), turned in another seesaw week rising as high as 4176, falling as low as 4083 and ending the week at 4108.54, down 1.2%. That closing value leaves it still in "correction" territory, down 14.28% from its top in early January, and down about 2.87% from this time last year. The other side of that number is that the SPX is up 5.3% from its low point three weeks ago and remains up an impressive 83.63% from its low a couple of years ago in March 2020. The CRSP Mid-Cap Value Index closed at 2483.86, down 1.78% for the week. It is now down only 4.45% from its highest close, also in early January, and down 1% from a year ago. Both indexes were in positive territory for the week before the better-than-expected employment report.

The benchmark 10-year U.S. Treasury note yield rose 7% to 2.942% to end the week, almost twice the yield it carried at the beginning of 2022. The prophetic Treasury yield curve though remained positive with the 90-day T-bill yielding 1.185% and the 30-year bond at 3.096% suggesting that disaster is not on the horizon. West Texas Intermediate crude oil, the U.S. benchmark for fuel prices, rose another 4.5% to $120.29 per barrel, suggesting that the pain at the pump is far from over.

The Economy

As happens when the Fed is focused on raising rates, we are in a "good news is bad news" phase for the markets. The news that took the stock market indexes down on Friday was that U.S. employers increased the number of workers on the job by about 390,000 for the month of May as the official unemployment rate remained at 3.6%. To hold a constant rate of employment, the U.S. only needs about 150,000 new jobs filled each month, so again, the U.S. economy is distinctly growing, and at a fast clip. Even considering that over the past 12 months we have averaged a filled jobs increase of about 500,000 per month, Friday's jobs news likely means that the Federal Reserve will need to crank interest rates up more than we have seen in order to cool down demand and hopefully take a bite out of inflation. Adding to the "good news for the economy is bad news for the markets" story was the additional report that wages grew 5.2% over the last twelve months.

The reason that is bad news for the markets is we have about six million more people gainfully employed than we did a year ago and when about 158.4 million working people not only add another 390,000 new workers to their status, but get a 5.2% raise, that adds about another $100 million to the economy for them to spend. Given that we are experiencing a supply shortage because of a combination of ongoing COVID issues in China and the Russian invasion of Ukraine, that increase in spending money combined with a limited supply of things to buy is a sure-fire indicator that prices will continue to rise. The Federal Reserve cannot do anything about a limited supply of both goods and services, but they can, theoretically, slow down demand by raising interest rates, so that is what they are doing. The fear among investors is that the Fed will hit the brakes just as consumers are depleting their cash buildup and plunge the economy into a severe recession, a scenario we consider highly unlikely, but nonetheless scary.

Meanwhile there is some inverted good news on the inflation front beginning to show. Lumber prices, after soaring to record heights during the pandemic, have fallen an astounding 40% since March, and July futures prices for wood

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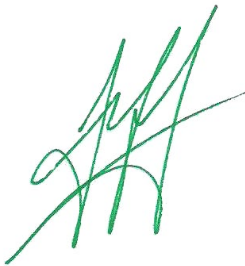
are down 52% as new home building and home improvement activities have started to slow. Another indicator that appears to be pointing in the right direction is the number of cargo ships waiting to dock and unload off Southern California's two big ports. In January there were an average of about 75 ships awaiting dock space, but that number has now dropped to 25. Unfortunately, there is still a record backlog of containers held up in rail yards across the country, so we have a way to go before supply chains get unsnarled and prices settle down. Perhaps the best indicator of how overheated the market for goods has gotten is the orders backlog for corrugated boxes. In February, the time from order to delivery for such boxes was about 22 days. Last month that delay had dropped to 14 days. As our capability to manufacture boxes has not grown, demand appears to be gradually coming down to something more sustainable. In a final be of improving news on inflation, surveys on consumer inflation expectations, which were running at about 3% a few months ago, have dropped to 2.5%.

Looking at all the data, we continue to believe that the chances of a severe recession in the next two years remain quite low. Consumers have substantially paid down their debt, still have an abundance of unspent savings, and have done an amazingly good job of capturing the low interest rates of the past two years on long-term debt. Surveys continue to show that they are still very interested in purchasing new vehicles and other long-term goods when they become available. Those indicators are all positive for the U.S. economy over the next couple of years.

Until next week, know that we and all the members of the TPWC team remain hard at work serving you, our clients, and our sole employers.



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