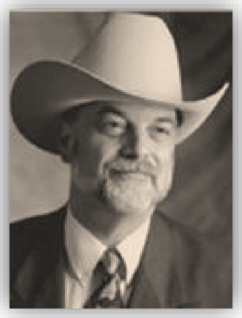

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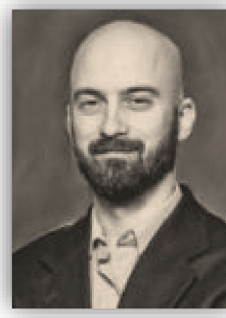

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TPWC Market and Economic Update

The Markets

It was not a pleasant week in the equity markets. As the 10th day of June opened, the Labor Department announced that the U.S. Consumer Price Index was up a stunning 8.6% over the trailing 12 months. Worse, the index rose 1.1% just in the last month, and even 0.6% when food and fuel were removed to get the "core" inflation measure. The market reaction came as analysts concluded that the Federal Reserve would raise rates by a half-point in June, July, and September. That scenario puts the likely short-term rate at about 3.25% by the end of the year. More than a few companies in the S&P 500 would find their debt service costs each month at that rate higher than their current profits. Those were the companies that led the market down for the week and that news triggered broad automated sell orders across the market. Those sell orders took the S&P 500 from around 4100, where it had been trading on Thursday down to 3900.86 at the close on Friday. The Friday slump left the SPX down 5.05% for the week, 18.61% from its record high on January 3, and 7.98% lower than it was a year ago. The CRSP Mid-Cap Value Index, not wanting to be left out of the pity party, fell 5.16% to 1355.80 leaving it down 9.3% from its record high in January and 5.64% from this time last year. Once more, it is a good idea to keep longer-term returns in mind. After this week's slump, the SPX now has an average annual rate of return of 12.95% over the last three years. Measuring from the last time the market took a nosedive, in March two years ago, it is up over 74%. While it is hard to stomach, this is very typical historical behavior for the U.S. Stock Market. RBC Capital Markets issued a report that in their opinion, the S&P 500 will end the year at about 4700, about 20% higher than its current level. That would still not put it ahead for the year but would be a great recovery. Let's hope they are right.

The yield on the 10-year U.S. Treasury note reacted as expected to the inflation news as it rose to 3.162%. While the Treasury yield curve flattened, it remained positive with the 30-year bond yielding 3.169%, while the 2-year note remained lower at 3.065%. Stocks have clearly taken a hit, but the S&P 500 Bond Index is showing even more pain with that bond index now down 11.24% over the last year and showing an average annual rate of return over the last three years of only 0.57% even with interest reinvested. In a hint of at least less-bad news, West Texas Intermediate crude oil held almost constant for the week at $120.50 per barrel.

The Economy

Clearly the dominate economic news for the week was centered on inflation and guesses on what the Federal Reserve is going to do to eliminate it. Digging once more into the underlying numbers, it is clearly the price of energy that is driving the train. Motor fuel came in over 49% higher than it was a year ago, and since motor fuel is required to cultivate, harvest, and transport food, that price is getting passed on there. Throw in the 19.5% rise in the cost of private transportation, and the spike in prices we are seeing makes sense. China announced too that it was once more shutting down about half of Shanghai as COVID cases surged. The combination of the loss of much of the food and fuel that Russia and Ukraine have historically contributed to the world market is driving prices across much of the world upward at the highest rate we have seen in forty years. Lest you think that this is something we are feeling only here in the United States, the general inflation rate in the European Union was also announced this week, and it came in at 8.1% with a warning to expect higher numbers in the months to come. Still, there was a glimmer of hope in the Labor Report as the two-month total for core inflation was only 1.1%, equating to an annual rate of 6.8%, still quite high, but trending downward. Moody's is holding to their forecast that inflation will peak this quarter and moderate the rest of the year.

Looking at the rest of the economy, signs are appearing that high prices and rising interest rates may be having the desired effect of getting consumers to buy fewer goods. The U.S. trade deficit shrank 19% in April as imports fell for the first time in nine months, while U.S. exports rose 3.5%. New purchase mortgage applications fell 7% to the lowest level in 22 years, and home sales dropped to a rate lower than before the pandemic, suggesting that the house-price boom is slowing.

The bottom line remains largely unchanged. The economy is racing and booming, probably a bit too much. We are in the bumpy period we forecast would come, but we are still in the largest, most productive, and healthiest large economy in the world. Bumpiness will likely continue this year, but we remain confident that American companies will find a way to profit from this chaos and we will remain on top.

Until next week, we pledge to do our best to do our fiduciary duty to provide the best possible service, investment advice, and portfolio management possible to our sole employers, our loyal clients.

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