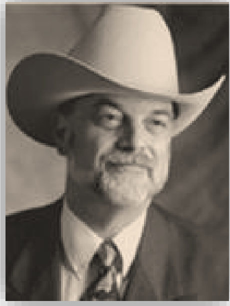

THE PERSONAL WEALTH COACH®

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

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TPWC Market and Economic Update

The Markets

Well, we are now officially in a "bear market." The apparent trigger that took the S&P 500 Stock Index (SPX) down 5.79% for the week to 3674.84 was the announcement late Wednesday by the Federal Reserve Board that it was raising short-term rates by three quarters of a point rather than the half point it applied last month. Immediately after the announcement the markets rose but the next morning came the fall as apparently the sellers took a while to get the news. Unfortunately, there was little or no sign of panicked selling as the week progressed. We write "unfortunately" because bear markets traditionally have ended with a panicked selloff as the last sellers throw in the towel. The Index is now down 23.33% from its high in early January, down 11.8% from a year ago, but still up about 25% from this time three years ago. The CRSP Mid Cap Value Index declined 7.75% to 2173.12, leaving it down 16.33% from its top and 8.27% over the last year, firmly in "correction" territory.

The yield on the 10-year U.S. Treasury note bobbed around like a yo-yo during the week before finishing at 3.238%, a rise of 2.4%. The good news, if there was any, was that the 30-year note yield rose too, up to 3.273%, and with the 2-year note at 3.184%, thus the Treasury yield curve held its positive slope, even if just barely. The price of West Texas Intermediate crude oil did something extraordinary and fell almost 9% to $110.00 by the end of the week.

The Economy

The ongoing saga of inflation and interest rates dominated the economic news for the week as a seemingly endless stream of words spewed forth from pundits about what they thought or felt was going to happen over the rest of the year. Suffice to say that the future is always uncertain and, at least in the short term, markets, interest rates, and even the economy are likely to do whatever they do with little heed to what the experts forecast. We can state with a great deal of confidence what has happened in the past, but as Yogi Berra famously said, "It's tough to make predictions, especially about the future." We can say though, that the members of the Federal Reserve Board are saying that they expect short-term rates to rise to around 3.75% by sometime next year.

The open question is not just whether that rate increase will generate a recession but even more importantly, will it generate a severe recession or just a passing slowdown. The more historically reliable forecasting services are suggesting that the probability of a U.S. recession is between 30% and 50% but they agree that any recession will be mild. Past severe recessions and the bear markets that accompanied them, started with consumer credit card debt at very high levels. Currently the total credit card debt level of American households is $56 billion lower than it was before the pandemic. At the same time, the average American family has over $62 thousand in savings positions compared with $41,600 in 2019, according to the Federal Reserve. Severe downturns in either the economy or the market historically have not occurred while the average American family was in such relatively good shape financially. Another factor arguing against a severe downturn is the employment/unemployment numbers as unemployment remains at 3.6%, a near record low, even with 390,000 new jobs filled in May.

There is evidence that the rate of economic growth in the U.S. is slowing though. U.S. Retail sales declined 0.3% in May after rising a revised 0.7% in April with the biggest factor in the decline a drop in automobile sales. The real rate of sales decline, down 0.7% for the month, can be seen if we remove gasoline sales from the numbers as

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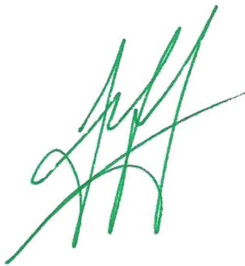
Americans bought less fuel but paid more for it. While that sounds negative, it is a good thing. Inflation occurs when we buy more than can be supplied, driving prices up. If that excessive demand is really starting to come down, inflation will decline with it. Looking at all the numbers, the economists at Vanguard reduced their forecast growth for the U.S. economy to 2% for 2022, down from the 3.5% they anticipated at the beginning of the year. Their forecast for Europe was not so sanguine as they are anticipating much higher inflation there with a high probability of a recession. The Bank of England announced that inflation in the U.K. has been 9% over the last year and is likely to go to 11% by this fall. China too, was marked for a growth downgrade as its reaction to the pandemic continues to shut down large portions of its economy.

Even though we are now technically in a bear market, the U.S. economy is still running at near maximum capacity, households are flush with cash, debt levels are low, and business has rarely looked better. This is a rough patch, and the bumps will likely continue, but we remain of the opinion that a year or more from now we will look back and see this as a passing problem.

Until next week, know that we remain focused on providing the best service, fiduciary advice and management, and accessibility for you, our clients and sole employers.

Happy Juneteenth, and Father's Day!



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

Jacob A. McClure, CIMA®

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