THE PERSONAL WEALTH COACH®

An SEC Registered Investment Adviser

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TPWC Market and Economic Update

The Markets

The S&P 500 Stock Index, our preferred if flawed indicator of the state of the U.S. stock markets, turned in a delightful week, ratcheting upward every day to end the week at 3911.74, a rise of 6.45%. It has now reduced its loss this year to 17.93% and from last year at this time to 8.62%. It also bumped up the three-year average annual return of the Index to 10.32% Interestingly enough, the rises came in a week Chairman Powell of the Federal Reserve, acknowledged before Congressional committees that a recession might be created by the Fed's aggressive interest rate increases but that he was determined to crush inflation. The other index we follow, the CRSP Mid-Cap Value Index, was up 4.87% for the week to 2279.04, reducing its loss this year to 12.25% and 6.97% from this time last year. Does this mark the bottom of the bear market? Based on historical investor behavior, probably not, but the future is always an unknown.

The yield on the U.S. 10-year Treasury note first rose to about 3.3% mid-week, then slid downward to close the week at 3.135%. The Treasury yield curve held its positive slope with the 30-year bond at 3.265% and the 2-year note at 3.063%. Happily, the price of West Texas Intermediate crude oil also moved downward to $107.53, $13 cheaper than it was a couple of weeks ago.

The Economy

There was plenty of new news about the economy for the week, but the focus remained on inflation, interest rates, and the probability of a recession. The Conference Board's Index of Leading Economic Indicators (LEI) fell by 0.4% in May to 118.3 and is now down 0.4% for the trailing six months but remains up about 3% for the trailing one-year period. The Index remains near a historic high but is now suggesting that economic growth will be slower in the near term. The key takeaway is that the Index is still not indicating a recession on the horizon. Historically, the LEI needs to be below where it was a year ago for at least two months to forecast a recession.

The indicators that the LEI tracks do suggest that U.S. economic growth probably has peaked and will be less robust than it has been over the last year. That is exactly what the Federal Reserve wants to see. Chairman Powell in his testimony before congressional committees repeated that the goal of the Fed was to bring inflation back down to around 2% but to do so if possible, without causing a severe recession. In his terms, a "softish" landing. On Friday, Moody's reported new home sales were running at a seasonally adjusted annualized rate of 696,000. While that is a bit higher than April, it is well below the 839,000 rate we saw six months ago and down 6% from a year earlier. Their survey of builders suggests that prices are no longer rising at double-digit rates and may level off for the year. Moody's suggested that in some areas of the United States as much as a 15% reduction in home prices may be seen over the next year or so as mortgage rates climb.

In another report, initial jobless claims held steady at 229,000, a number that sounds high but is suggestive of a rapidly growing economy. The number to watch for is 250,000 because at that jobless rate the job-growth in the United States will be in neutral. Anecdotally, some businesses have announced hiring freezes, another indication that growth is slowing.

Surveys of small businesses and individuals have indicated a substantial decline in both business confidence and consumer confidence. We take those surveys with a grain of salt as both consumers and business owners commonly report a drop in future economic expectations but continue to spend money as though the future is going to be better than the present. Small businesses, despite increasingly negative surveys, are continuing to hire new employees, a strong indicator they do not believe a slowdown is in the works. All indications suggest that they are indeed still spending vigorously.

The price of gasoline is unlikely to fall by much, if at all, as the summer progresses. The culprit appears to be refinery capacity. Investors and major oil companies are hesitant to spend large sums on new or improved refineries in the face of a predicted shift to electric vehicles. Meanwhile, as Russian petroleum is reduced or eliminated in Europe, drivers there are willing to pay top dollar for fuel and, as a result, are in direct competition with drivers here in the U.S.

The bottom line has not changed much. The U.S. economy is still on a tear although signs of moderation are beginning to appear. Inflation is still a threat, although we can take cold comfort in knowing that on the other side of the Atlantic it appears to be worse even as the Europeans face a very high probability of a recession soon. We remain technically in a bear market for stocks and a serious bear market for bonds, but like the economy, that may also be moderating.

Until next week we pledge to continue to work hard and do our best to provide the best fiduciary investment management, advice, and service possible to you, our clients, and sole employers.

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