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# THE PERSONAL WEALTH COACH®

**An SEC Registered Investment Adviser**

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## TPWC Market and Economic Update

### The Markets

Statistically it was a complicated week in the stock market. For the week that ended on July 1, the S&P 500 Stock Index (SPX) was down 2.21% to 3825.33; however, Thursday marked the end of the first half of 2022, and the SPX closed at 3818.83 on that last day of the second quarter. That gives the index a wee gain of 1.06% so far in the third quarter. That tiny gain is a small bit of light but historically during bear markets, Fridays tends to be down days as do the first day of each month. There are other bright bits in the historical numbers. The first half of 2022 saw the largest percentage decline in the SPX since 1970, and there are only two years since World War II in which it fell more, but in both those years, the market ended substantially higher six months later. The SPX is now down 19.74% this year and 12.11% lower than a year ago but up about 28% from where it was at this time in 2019. That pattern of improvement in the second half of a year that began with a bear market is fairly consistent. The CRSP Mid-Cap Value Index, our other tracked stock index, declined 0.57% for the week is down 12.83% year-to-date, and is 7.49% below where it was last year as July began, closing at 2266.01.

The yield on the ten-year U.S. Treasury note ended the week at 2.894%, almost 8% lower than last week, but still 1.5 points higher than last year at this time. The Bloomberg Treasury Total Return Index is now down 10% this year. The prophetic Treasury yield curve got a bit more positive with the 30-year bond yielding 3.117% and the two-year note at 2.837%. West Texas Intermediate crude oil (WTI) inched upward less than 1% to $108.42. It is becoming more and more clear that refinery capacity is driving the high price of gasoline far more than the price of oil.

### The Economy

In a further sign that the inflation we have seen in the United States is not home grown, the European Union announced this week that it had officially experienced 8.6% inflation over the past year. Here in the U.S. the Commerce Department announced that its core Personal-Consumption Price Expenditures Index (PCE), the inflation gauge that we and the Federal Reserve pay most attention to, was up 4.7% in May from last year, down from 4.9% in April. If we just look at May, the Index was up 0.3%, an annualized rate of 3.6%. That is a lot of numbers, but it suggests that inflation may have peaked and now is declining as we thought it would in the second half of the year. To put that number in perspective, voting members of the Federal Reserve Board have suggested they are targeting a short-term, Federal Funds Rate of between 3% and 3.5% by the end of the year. If everything were to continue as it apparently is, that would be what economists refer to as the "neutral rate". If inflation continues to cool down, that also could mark the end of the Federal Reserve tightening. Between now and then, with the Fed rate at only 1.75%, the Federal Reserve has a lot of tightening to do and that probably will mean at least one more 0.75% increase in rates followed by more gradual quarter point increases in the follow-on months. As longer-term rates have been moving in lockstep with the Fed's short-term increases, it would be prudent to expect longer-term rates to be substantially higher by the end of the year as well.

It is looking like we may have two consecutive quarters of negative GDP in the United States, but we probably will not officially be in a recession. It is hard to call an economy in recession with near record-low unemployment and with every industrial and commercial index still growing. There is evidence though that the U.S. rate of growth is slowing. Consumer spending, which is about 70% of our GDP, only rose 0.2% in May after rising 0.6% in April.

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Because inflation is subtracted from nominal economic growth numbers to arrive at GDP levels, we are likely to see the second quarter of 2022 have a reported GDP that will contract 1.5% on an annualized rate.

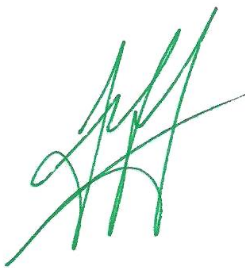
One of the reasons the Conference Board is unlikely to officially declare the U.S. economy to be in recession is that the leading manufacturing indexes are still growing. The Markit Manufacturing Purchasing Manager's Index (PMI) came in for June at 52.7 on a scale where number above 50 equal growth, indicating ongoing growth at about the same level as the S&P Global Flash Manufacturing PMI at 52.4. The ISM manufacturing survey fell from 56.1 to 53 in June but at that level is still in growth mode. Another reliable indicator of where the U.S. economy is headed, the Commerce Department's U.S. Durable Goods Orders Report rose 0.7% in May, an 8.4% annualized growth rate.

The same was not true of the S&P Global Manufacturing Output index as it retreated into contraction. The rest of the world is likely already in a recession as the rising cost of fuel's effects ripple across less vibrant economies outside the U.S.

Despite the bear market in stocks and bonds, the prime indicators in the U.S. economy remain decidedly positive and appear to be slowing to a sustainable rate. Fed Chairman Powell stated this week that his goal was to slow the U.S. consumption rate enough to allow production to catch up, and thereby reduce annual inflation to the 2% to 2.5% range targeted by the Fed. It appears that may be working.

Until next week we remain steadfastly focused on providing the best possible fiduciary advice, portfolio management, and service to you, our clients and our sole employers.

Happy 4th of July! Be safe and stay cool.



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