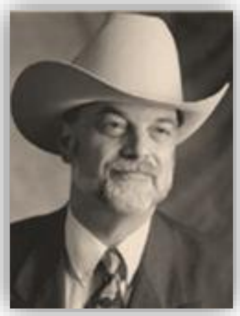

THE PERSONAL WEALTH COACH®

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TPWC Market and Economic Update

The Markets

The dear old S&P 500 Index (SPX), our preferred, if decidedly flawed stock market index, turned in a muted but in its own way, delightful week by rising a mere 36/100 of one percent to 4145.19. We find it delightful because that wee rise in value leaves it over 13% higher than it was in mid-June; although still down about 13.5% from its high in early January. It also leaves it down 6.57% from last year at this time, but up an astounding 41.5% from three years ago, pre-pandemic. Our other followed market indicator, the CRSP Mid-Cap Value Index slipped 0.79% for the week to 2385.77 but is only down just over 8% from its high point and has risen 9.8% from its bottom in June. This all may just be a so called, "bear market rally" as the pessimists are proclaiming, but if so, it is the most impressive one we have seen in forty years of watching such things.

The benchmark 10-year U.S. Treasury yield zipped up over 7% during the week, bouncing up and down as it went, to close out Friday at 2.843%. With the 2-year note yielding 3.226%, the inversion continues, but there are some indications that Treasury yield curve inversion, circa 2022, may not be the same thing as previous iterations. West Texas Intermediate crude oil (WTI) price per barrel did an impressive 10.36% swan dive to $88.37, portending perhaps better things to be seen at the gas pump in the days to come.

The Economy

The biggest economic news for the week has to be the Bureau of Labor Statistics (BLS) report that the US unemployment rate dropped to 3.5% as the number of employed nonfarm workers rose by 528,000. This report marks a full recovery to the number of full-time employed persons who were working in February 2020, just before the pandemic hit. At the same time, the total number of unemployed workers dropped to 5.7 million, again, the same number that we saw in February 2020. You may remember that in July, there was a chorus of voices proclaiming that the U.S. was in a recession and all we would see into the future was more bad news. We have watched recessions unfold now for about a half century and frankly, employment has never risen as recessions unfolded. This so-called "recession" looks an awfully lot like a full-blown expansion from here. Yes, we have a yield-curve inversion, but that inversion may well have been engineered by the Federal Reserve as they unwind their balance sheet, making it a very different thing than the inversion we saw 50 years ago.

One set of negative numbers did appear as the BLS reported that initial jobless claims rose to 260,000 for the last week in July; however, that number likely was skewed as the increase was mainly in the state of Massachusetts where a budget issue suggested the state might delay initial claims soon. Across the rest of the country, employers seem to be far more focused on hiring than firing. Historically, initial unemployment filings have run above 300,000 when the country is sliding into the early stages of a recession.

Another couple of positive economic reports seem to contradict the recession mongers. First, our nominal trade deficit was in reverse in June as exports rose 1.7% while imports dropped 0.3%. The other numbers were in the various purchasing managers' index (PMI) reports this week. The S&P Global U.S. Manufacturing Index PMI came in at 52.2 on a scale where numbers above 50 indicate expansion and below 50, contraction. Even more impressive was the ISM Non-Manufacturing PMI which unexpectedly rose to 56.7 for July, its highest reading in 3-months.

Deeper in the report were indications that price pressures were easing and production, running at 59.9, was still being hampered by difficulty finding workers. Again, if this is a recession, it is the most growth-like recession we have ever seen!

Europe is almost certainly slipping into a very real recession though while at the same time facing near record levels of inflation. The Bank of England raised its rates a half percent and warned that annual inflation will hit 13%. Over in the Eurozone, annual inflation came in at 8.9% in July with Goldman Sachs saying that a recession is already underway. The culprit there as here appears to be the Russian invasion of Ukraine. Then, the reports we have from the People's Republic of China official sources are acknowledging an economic slowdown that looks a lot like a recession on the other side of the world. For all our warts and pimples, it is a good time to be here rather than somewhere else.

The bottom line remains that the U.S. economy is expanding, no matter what the official GDP numbers for the first and second quarters reported. Yes, the expansion is throttling back a bit, but that is a good thing. We expect inflation to start to moderate over the next few quarters and quite possibly slide back to a long-term normal in 2023. That should allow the Fed to back off, and hopefully give our economy the soft landing we all want to see.

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

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