THE PERSONAL WEALTH COACH®

An SEC Registered Investment Adviser

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TPWC Market and Economic Update

The Markets

The venerable S&P 500 Stock Index (SPX) in its role as surrogate for the U.S. equity market, turned in a rousing week, rising 3.26% to 4280.15. That very positive surge left it up a pleasant 16.73% from its low in early June, although still down just over 10% from its high in January, but up 45.57% from where it was three years ago, six months before the pandemic. It started up with a jolt on Wednesday morning, reacting to the BLS report that inflation may be easing. Our other indicator, the CRSP Mid Cap Value Index, continued to run ahead of its big brother, rising 4.84% to 2501.13. That runup leaves it down just 3.7% from its high in January and up over 15% from June's low point. As a bear market is generally considered to have ended when an index is up at least 20% from a recent low, the bear remains in charge of Wall Street but its grip on the agenda seems to be slipping. Yet another view, held by the market charters, is that a bull starts when the SPX has risen halfway back to its last high point. 4231 was that halfway point so they are happy too.

The ten-year U.S. Treasury note yield ended the week at 2.84%, virtually unchanged from last week, while the Treasury yield curve remained inverted with the two-year note at 3.25%. Whether or not that inversion is being generated by the Federal Reserve, it has a host of analysts warning that the U.S. economy will be in a recession sometime before mid-2024. West Texas Intermediate crude oil (WTI) price per barrel climbed about 4% to $91.88.

The Economy

As the week started, the chatter was about how much and how fast the Federal Reserve would raise interest rates in the face of what was expected to be an even higher reported inflation rate. Then, on Wednesday, sentiment suddenly changed as new information caused a reassessment. That new information was far more about what did not happen than what did. One of our favorite government agencies, the Bureau of Labor Statistics (BLS), issued its July report on the Consumer Price Index (CPI). While reported inflation from one year ago fell to 8.5% from last month's 9.1%, the key take away was that the CPI change for the month of July was 0.00%! In other words, inflation, at least as reported by the CPI, was non-existent from June to July. Digging down into the report it was immediately clear what happened. The price of energy fell 4.6% while gasoline prices fell 7.7%. If we take out the often-volatile food and fuel numbers to arrive at the "core" CPI, prices rose only 0.3%, an annualized rate of 3.6%.

One month does not make a trend though, and it is unlikely that fuel prices will continue to fall so dramatically as they did in late June and early July but, presuming that fuel prices stay down, it bodes well for the economy. Fuel price rises were a major factor in driving inflation up in the first half of the year as almost everything we purchase involves using fuel, so as fuel goes, so goes inflation. There will be a lag before we see other prices start to level off and even possibly decline but we continue to think that inflation will trend lower over the rest of the year. The markets were happy because if inflation is trending downward, the hope remains that the Federal Reserve Board will not need to raise interest rates beyond the "neutral" rate of about 3.5%. That, in turn, would greatly improve the chances of a soft landing without a recession or at least, result in a very mild recession.

Supporting that view was the report that U.S non-fuel import prices declined 0.5% in July. While fuel may drive the train, a lot of what we buy and use to make things here is purchased from overseas. All of that seems to have come

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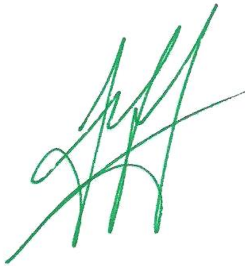
together in the July Producer Price Index (PPI) report from the BLS. Producer prices are effectively a measure of wholesale prices and tend to lead retail price moves by a month or more. The U.S. PPI for July was *down* 0.5%. Some of that was the decline in fuel cost, but again when we remove the volatile food and fuel numbers, the PPI was only up 0.2%, or an annualized 2.4%. That PPI number is for "final demand" meaning it is only one step removed from retail. If we go back up the chain to see what the wholesaler and manufacturers are paying for raw materials, the news gets better. Prices for unprocessed goods for intermediate demand *fell 12.4%* in July! Again, fuel was the main driver in that decline, but most everything else saw price declines as well.

There was another report that surprised the pundits this week as the BLS also reported that labor productivity fell 4.6%. That negative number looks bad on the surface until we look at history. Sudden drops in productivity are normally seen right at the beginning of an economic expansion as businesses hire new workers and tag productive workers to train the new hires. As recessions start, we normally see productivity go up as less productive workers are laid off.

We hate to argue with such a respected firm as Bloomberg where their models are indicating a 100% chance of a recession in the next 18-24 months, but we simply do not see the ear marks of a recession in the data. Only time will tell, but baring some unexpected event, we continue to be optimistic about the markets and the U.S. economy.

Until next week, we remain steadfast in our pursuit of better ways to manage your portfolios and serve you, our clients, and sole employers.



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