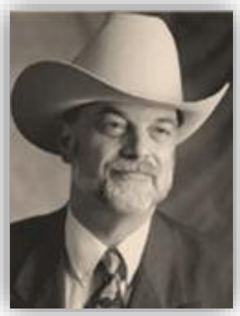

THE PERSONAL WEALTH COACH®

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August 19, 2022

TPWC Market and Economic Update

The Markets

After rising for four weeks the S&P 500 Stock Index (SPX) gave back 1.21% of its value for the week ending on the 19th, falling to 4228.48. That leaves it down 11.78% from its high in January but up 15.23% from its recent low in June. It is now down 4.8% from a year ago, but up a still astounding 47.57% from three years ago. The CRSP Mid-Cap Value Index, the other stock index we watch, followed its big brother, and declined about 1.20% to 2471.19. It is now down 4.85% from its January high but is up 0.73% from one year ago. It was certainly pleasant to see that one-year number become positive. This week's fall in the stock indexes was generally agreed to be out of fear that the Federal Reserve would overreact and send the economy into a recession as it fights inflation. More on that below.

The 10-year U.S. Treasury Note yield climbed as the stock market fell, resulting in bonds falling about as much as stocks for the week. The 10-year yield ended the week at 2.97%, an increase of 4.75%. The Treasury yield curve remained inverted with the 2-year note yielding 3.23%. West Texas Intermediate crude oil (WTI) slipped another 2% to $89.97 per barrel at the end of the week suggesting more good news at the gas pump may be in the offing.

The Economy

There was plenty of economic news this week including some surprisingly good earnings reports and a retail spending report that too was excellent, but the focus all week was on the release of notes from the Fed's last meeting, in July, and the cryptic and not so cryptic mutterings of the various members of the Federal Reserve Board as they made speeches which included their view on what the Fed should be doing with interest rates in the next few months. Uniformly, they were hawkish about their assault on inflation and seemed to strongly lean toward raising rates another 0.75% at their meeting next month. That really should not come as much of a surprise as inflation this year has been the highest we have seen in four decades and the Fed's interbank lending rate is currently set at 2.25%-2.5%. All along, the board members have said they want to get that rate up to at least 3.5%-3.75% as soon as possible and certainly before the end of the year. A 0.75% rate increase at the next meeting would take the interbank-rate up to 3.00%-3.25%, leaving it still half a percentage point below their minimum target. Since the next meeting after September would be in November, it is hard to imagine how to get to that target by the end of the year without a big rate increase along the way.

The suddenly renewed fear of recession came on the heels of a very positive retail spending report. Technically, retail spending in the United States was flat in July, but when the volatile gasoline and auto sales figures were removed, retail spending was up 0.7% following a 0.8% rise the previous month. If we average and annualize those numbers, they come out to an annual rise in retail spending of about 8.5%. In our economy, where consumer spending is most of the GDP, that is an impressive number. It is likely to take a hit in August because of lowered prices on Prime Day, but we will see. Moody's analytics now has the third quarter U.S. GDP rising at an annual rate of 1.7% after contracting for the two previous quarters. Meanwhile, new unemployment claims eased lower in the week ending August 13, with the four-week moving average at 246,750, suggesting that the economy is still going strong.

From our perspective a couple of data points were hit in the week that are even better indicators of the state of the economy. Walmart, which earlier this year had warned that sales might be slowing, announced that toward the end of the second quarter sales surged and reported stronger sales and profits than expected, resulting in earnings that were up 23% from last year. Surprisingly, those record high earnings came in a quarter when the retailer was offering extensive clearance sales to unload excess inventory. Then, Home Depot topped that as the big-box home improvement retailer reported its highest quarterly sales and earnings on record. Walmart is the largest retail company in America, and it is sometimes said, "As goes Walmart, so goes the U.S. economy."

In another surprise, production at U.S. factories reversed its two-month decline to rise 0.7% in July according to the Federal Reserve. The key was a substantial increase in motor vehicle output. Backing up that report was another announcement that total industrial output was up 0.6% last month. Hiding in those reports was the important data point that business equipment output rose 0.6%. Businesses tend to slack off on purchasing equipment when they see a recession looming but raise their buying when anticipating economic growth.

The situation in the U.S. economy is hard to read because there is so much whiplash underway from the sudden surge in demand for goods during the lockdown period and now a clear move away from some goods purchases and into services. The surprises this week were in how the goods side of the economy has come back to produce gains. It is obvious to us that the economy is running strong, and despite the fears of higher interest rates and high inflation, is showing no signs of decline.

Until next week, we promise to continue to do our best to serve God and Country, stay square, and obey the Scout Law as well as endeavor to provide the very best fiduciary service and portfolio management possible to our sole employers: our clients.

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