THE PERSONAL WEALTH COACH®

An SEC Registered Investment Adviser

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August 26, 2022

TPWC Market and Economic Update

The Markets
Federal Reserve Chairman Jerome Powell gave his annual speech at the Kansas City Fed's Economic Symposium held in Jackson Hole, WY on Friday morning. In that speech he emphasized that the Fed will be aggressive in increasing interest rates and keep them high until the members of the board are convinced that inflation has declined to the 2% range the Fed has targeted for the long-term. He also warned that there will be some pain for some people, but that it is needed to bring inflation under control. All the market indexes, both bonds and stocks, promptly took a nosedive. By the close on Friday, The S&P 500 Stock Index (SPX) had fallen to 4057.66, leaving it down 4.04% for the week. After that decline it was still 10.66% higher than it was in mid-June of this year, but 15.34% lower than its all-time high in early January. To put that in a longer-term perspective, the SPX is still 44.5% higher than it was three years ago, about six months before the pandemic hit. Our other followed index, the CRSP Mid-Cap Value Index, showing its traditionally more muted behavior, fell 3.16% for the week to 2393.05, leaving it down 7.86% from its highest point in January, and up 10.12% from its low point in June.

The 10-year US Treasury note yield rose to 3.04% at the end of the day on Friday. As the 2-year note rose just a bit to 3.37%, the yield curve is still inverted and thereby warning of the potential for a recession in the next 18 months or so. The price of a barrel of West Texas Intermediate crude oil (WTI) rose about 3% for the week to $92.96, still providing a relief at the gas pump after hitting $120 per barrel in June.

The Economy
The affirmation by Chairman Powell at the Jackson Hole meeting was reinforced by two other voting members of the Federal Reserve Board this week who made it abundantly clear that short to intermediate term interest rates are going to be higher in the near future. The markets reacted for a good reason. Many of the large-capitalization growth companies that tend to drive the SPX carry a lot of debt on the books from their borrowing to continue to grow their capacity. That debt will be more expensive for them to maintain as interest rates rise. Chairman Powell's remarks included a warning that jobs will be lost, and he expects the unemployment rate to rise to 4% or even 5%. The purpose in increasing interest rates is to reduce spending, which economists refer to as "demand." Causing loans to be more expensive raises expenses for companies, which historically causes them to cut back in other areas, including employment expenses. That, at least theoretically, will cause them to lay off employees. It is clearly already having an effect on at least one industry.

The Commerce Department announced that housing starts for July fell 9.6% from June as building permits fell 1.3%. If that trend holds, then there will soon be fewer people employed building houses. At least some of that decline can be credited to the rise in the average 30-year mortgage rate from around 2.5% a year ago to the current 5.55% according to Freddie Mac. In a separate report though, again for July, the Federal Reserve reported that manufacturing output in the U.S. economy rose 0.7% for the month. The Commerce Department then chimed in with a report released Friday that Consumer spending in the U.S. rose 0.1% in July after rising a full 1% in June.

The Commerce Department also announced on Friday that the Personal-Consumption Expenditures Price Index (PCE), the Federal Reserve's preferred inflation gauge, rose 6.3% from a year ago, a significant drop from last month's

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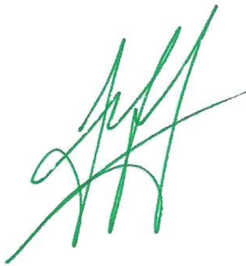
6.8% as the average cost for a gallon of regular gasoline fell to below $4 across the nation. For the month of July, the PCE *fell* 0.1% suggesting that inflation peaked in the first half of 2022. In yet another report the Commerce department revised their GDP report for the second quarter to an estimate that the economy contracted at a 0.6% annualized rate rather than the 0.9% in their first estimate. Then, the Labor Department announced that employers added 528,000 jobs in July, an astonishingly high number and new unemployment claims fell last week.

Conflicting signs for which way the economy is headed continue to multiply. U.S. Gross Domestic *Income* (GDI) which theoretically should be the same as GDP, *rose* at an annualized rate of 1.4% for the quarter! GDI does not subtract the import/export imbalance, or changes in inventories. All it reports is the total income earned by businesses and households in the U.S. economy. It is what we refer to as the "common sense GDP." In short, the fundamental indicators tell us that the U.S. economy is still growing strongly. If the Fed wants to slow things down, they have their work cut out for them. On the other hand, if this bout of inflation is more a result of an interruption in supply instead of excessive demand, things may cool down sooner than the Fed anticipates.

Until next week, rest assured that we, the two bearded baldies, and our superb team of professionals, are hard at work in an endless effort to provide you with the best possible personal service, portfolio design and management, and clear, fiduciary investment advice.



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