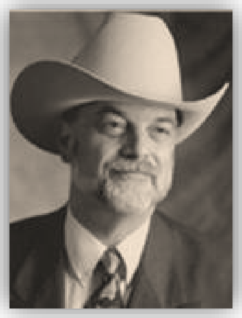

THE PERSONAL WEALTH COACH®

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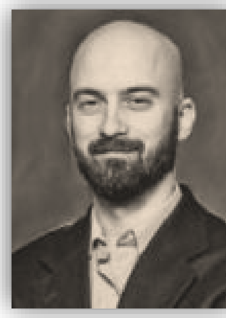

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September 2, 2022

TPWC Market and Economic Update

The Markets

The week that ended on September 2, was one of those weeks we have seen so many times in the past when, as far as the market is concerned, good news is bad news. The problem with the data released this week is that just about all of it indicates a strongly growing U.S. economy. Stock and bond traders are unhappy about that news because they believe that good economic news will cause the Federal Reserve to increase interest rates more and longer in their efforts to slow demand and thereby crush inflation. Higher interest rates can mean lower earnings for some of the highly indebted, faster growing companies, and lower earnings may mean lower stock prices. So, the traders sell stocks in anticipation of lower earnings. Our experience is that a good economy tends to increase earnings, not decrease them, but once the herd of traders starts selling, others start selling too, thinking the fast-moving stock and bond traders must have a good reason to be selling.

The result for the week was a decline in the S&P 500 Stock Index (SPX) of 3.29%, taking the Index down to 3924.26. That leaves it down 18.13% from its high back in early January, but still up 7.02% from its recent low point in mid-June. It is now down about 13.48% from this time last year, but up a whopping 38.12% from three years ago. Our other watched stock index, the CRSP US Mid Cap Value Index, closed at 2325.44, down 2.83% for the week and 10.47% from its high in January, but still up over 7% from its bottom in June.

The yield on the benchmark 10-year U.S. Treasury note rose about 5.25% to 3.20% and as the 2-year yield was at 3.44%, the yield curve is still inverted, although it is an odd inversion. The 20-year T-bond is yielding 3.61%, so the longer-term yield curve is very positive, but there appears to be a dip in the middle of the curve. As we have written before, these are strange times. The price of West Texas Intermediate crude oil (WTI) dropped an impressive 6.35% To $87.06 per barrel, the lowest it has been since late January. Following WTI's lead, the average price for a gallon of regular gasoline in the U.S. declined for its 11th straight week to $3.81 per gallon, just in time for the Labor Day weekend.

The Economy

The economic data released for the week is telling a clear and unambiguous story. The economy of the United States is growing and driving forward at a fast pace. On Friday, the Labor Department released its monthly Employment Situation Summary and in it was the news that total nonfarm payroll employment increased by 315,000 in August. Yes, the unemployment rate rose from July's 3.5% to 3.7% but that was not because jobs were lost, rather it was because the labor force participation rate increased by 0.3% as more people are entering and returning to the job force. Meanwhile, new unemployment claims dropped to 232,000 with the four-week moving average of newly laid-off workers near a half-century low. Add to that the report on August 30 that U.S. Job openings continued to rise in July, and the full set of data now indicates that employers are still begging for workers, and thereby believe that the economy will continue to grow rapidly into the foreseeable future.

Then, the Conference Board chimed in with news that U.S. consumer confidence reversed course in August, rising to 145.4 from a four-month low of 139.7 in July and improved even more when consumers were asked about where they thought the economy will be six months from now. The University of Michigan consumer sentiment survey echoed that finding with a rise to 58.2 from June's low point of 50. Adding insult to injury, at least from a stock trader's perspective, the Institute for Supply Management (ISM) reported that its August 2022 Manufacturing Purchasing Managers Index (PMI) came in at 52.8 on a scale where numbers above 50 indicate economic growth coming down the road. The commentary with that report from the ISM said, in part, "New order rates returned to expansion levels." even as respondents reported that prices they were paying for raw materials softened.

Across the board, the data continue to indicate that growth is slowing to a more sustainable rate, but also that the economic growth we are seeing is deep and has a great deal of momentum. There continue to be reports that there are transportation and raw material availability constraints affecting business, but they too appear to be moderating. ISM respondents see good growth at least through the rest of this year. The back side of that is that Europe looks more and more to be in a world of hurt economically and China is not looking good either. Once more it appears the United States may need to pull the world through a recession. The open question is whether our economy will be strong enough to pull the world or will we be dragged into a recession here too? Stay tuned as we report on this drama each week.

Until next week you may rest assured that we are hard at work in our never-ending mission to serve you, our clients, and our sole employers, with the best personalized portfolio management, financial planning, fiduciary investment advice, and personal service possible.

Have a good and safe Labor Day weekend. We'll see you on the other side!

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