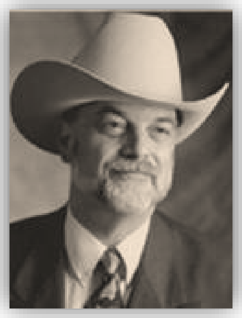


# THE PERSONAL WEALTH COACH®

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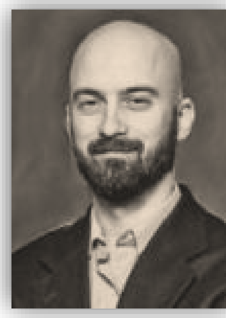


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**September 30, 2022**

## TPWC Market and Economic Update

### The Markets

Reading the headlines for the last week in the quarter of 2022, ending on September 30, one would think that the market had "crashed" and was plunging toward zero. While the S&P 500 Stock Index (SPX) did fall 2.91% to close at 3585.62 and is now down just over 25% from its high in January, and 17% from where it was last year at this time, it is also up over 25% from where it was three years ago, three months before the pandemic. The CRSP Mid-Cap Value Index ended the week at 2099.27 as it fell 3.32% putting it down just over 19% from January's high and 14.13% from last year. We are, indeed in a bear market, but in our four decades of being involved in such things, we have certainly seen far worse.

The yield on the U.S. Treasury 10-year note continued its relentless climb to 3.83%, up a whopping 152% this year. Still, it was better than it could be. Midweek the 10-yr note rose above 4%. The 2-year note was yielding 4.22% at the end of the day, so the Treasury yield curve remains in a decidedly inverted state. The price of West Texas Intermediate crude oil mirrored the market, slipping below $77.50 on Wednesday and the inching upward at the end of the week but still below $80 per barrel at $79.67. The average price for a gallon of gasoline also continued downward, dropping to $3.80 according to AAA.

### The Economy

The economic seas got rougher this week, and the storm hit from several directions. It became very clear on Thursday that Hurricane Ian was going to be a monster storm and would carve a path across the Florida peninsula and then turn north to beat up the Atlantic coast. Hurricanes tend to hurt GDP in the short run and boost it in the longer-term. Adding to the rough seas, the United Kingdom's currency and bonds were pummeled hard as the pound fell to $1.06, a record low against the dollar. The Euro ended the week at $0.98 as the Eurozone reported that inflation hit a record high of 10% for the year ending in August closely matching the 9.9% annual inflation reported in the U.K.

Here at home, our very own beloved Bureau of Economic Analysis (BEA) reported that the trailing PCE Price Index, the inflation number that the Fed pays attention to, was up 6.2% for the trailing year, with the core PCE, excluding food and fuel, up 4.9%. The core and regular PCE inflation for August came in at 0.6% and 0.3% respectively. The issue continues to be that our economy has generated too many good jobs. The demand for employees is driving wages up at about 5% per year, while we are still suffering from an ongoing shortage of the things people want to purchase. The law of supply and demand states that when there is more demand than available supply, prices will rise, and they have.

With much of China still shut down and Russia's invasion of Ukraine reducing supply from Europe, the fact that things are going so well here in the U.S. is causing a rise in the price of just about everything. Unfortunately, there is nothing we can do in the short term to create more supply, so to stomp out high inflation, the Federal Reserve must take steps to reduce demand. The way that is done is to raise interest rates, thereby making operating a business or getting loans to buy big-ticket items more expensive. The intention is to reduce business purchases, reduce the number of people being paid, and increase the cost of borrowing to buy things like houses, cars and appliances.

The conundrum facing the Federal Reserve is how to slow the economic train down a bit without causing it to stop. Current interest rates are what economists call "stimulative" in that short term rates are still carrying less interest cost than the rate of inflation. The clear intention of the Fed is to get rates up to at least neutral by the end of the year and then take them a bit higher in 2023 to slow things down. That is a great plan in theory, but then along came Hurricane Ian, smashing its way across a big part of our economy. The impact of Ian alone is estimated to cut 0.3% off this year's GDP. On top of that, we are economically interlinked with China, the U.K. and Europe, all of which appear to be slipping into outright recessions.

Those things are all happening as the Fed tries to pull money out of the economy while gasoline prices are falling, providing more money for consumers to spend. Consumer confidence stubbornly keeps rising, suggesting that people are more likely to keep raising their spending, and in fact did increase household spending by 0.4% in August. Once more, good news is bad news. To slow down spending, the Fed has a lot of work ahead of it, and the fear is that it will go too far.

Are we likely to have a recession? With the arrival of Ian, our answer has turned to "yes." We still do not see evidence of a major economic contraction, rather we see an amazingly strong U.S. economy, plenty of cash in reserve, and a likely shake out that will precede good growth in the years to come.

Until next week know that we remain hard at work seeking to provide ever better fiduciary portfolio management, investment advice, and service to you, our clients, and sole employers.

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