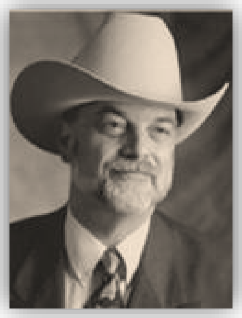

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An SEC Registered Investment Adviser

Jeffrey W McClure CFP® TPWC *Jacob A McClure* CIMA®

PO Box 1029 / 918 N. Main Street
Salado, TX 76571

(254) 947-1111
(800) 914-7526

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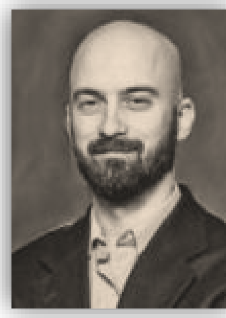

jeff@tpwc.com

jake@tpwc.com

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TPWC Market and Economic Update

The Markets

The first week of the new month and new quarter was another one where good news was bad news and the headlines proclaimed things as worse than they were, a not uncommon thing in our memory. Job growth cooled just a bit to extremely good rather than exceptionally good, and, of course, as that announcement was published, the market sagged. The S&P 500 Stock Index, our preferred, if flawed, representative of that amorphous thing called, "the stock market", *rose* 1.5% to 3639.66, although you would not have guessed it from the headlines. That small rise left it about where it was back in mid-June, down 23.64% year-to-date and 17.12% from one year ago. From a slightly longer perspective, the SPX remains up about 23% from three years ago, and up a whopping 63% from where it was in March of 2020. It is also worth noting that the bull market *top* just before the pandemic-induced bear market of 2020 was 3386, considerably lower than the market levels we are seeing now in what is decidedly a bear market. Our other followed index, the CRSP US Mid Cap Value Index closed at 2134.66, up about 1.7% but still down 17.81% this year.

The benchmark yield on the 10-year U.S. Treasury note rose 4% to 3.89% while its 2-year sibling climbed to 4.30% keeping the yield curve in a determinedly inverted condition and signaling a recession warning. If anything, the Treasury yield curve became more pessimistic as the 10-year note now has a higher yield than the 30-year bond. The bond market in general is having its worst year in modern history with the Morningstar Core Bond Index down 14.6% this year. The Treasury market is of the opinion that interest rates two and three years from now will be in the 4.30% to 4.33% range. With short term rates still in the 3% range, that would suggest a 50% rise in rates is in the offing. The price for a barrel of West Texas Intermediate crude oil shot up almost 17% for the week to $93.20 as Saudi Arabia and Russia issued a joint statement that they were working together and would cut production to increase the price of oil.

The Economy

All other economic news was nearly drowned out by an avalanche of headlines and stories we call "Fed guessing." There had been some hope that when the Labor Department released its Employment Situation Summary on Friday, there would be bad news for jobs which in the upside-down way market traders are seeing things, would be good news. Sadly, for the traders, it appears the American economy continued to grow at a fast clip. Employers added a net, seasonally adjusted 263,000 new employees in September and the unemployment rate fell to 3.5%, tying the 50-year low it hit before the pandemic.

The problem with those otherwise delightful numbers is that to hold its own and have inflation around 2%, our economy should add about 1% per year to the employed population. That equates to about 134,000 net new jobs per month. Adding fuel to the fire, that same report put wage growth at 5% while the Fed's target is around 3.5%. This all may sound complex, but it boils down to a simple formula. 2% inflation plus a 1.5% per year increase in worker productivity equals 3.5% wage growth, and that makes for a well-balanced economy. When there are fewer employees than jobs, competition for those employees drives the price up. Once more the law of supply and demand raises its ugly head.

There was a little negative (good) news in that the number of job openings fell by about 1.1 million in August, meaning that we now only have about 170 job openings for each 100 unemployed workers. On the bright side, businesses were hiring about 600,000 workers each month this spring, so a drop to 263,000 suggests we are headed in the right direction, but we are not even close to being there.

John Williams, the President of the Federal Reserve Bank of New York, suggested that interest rates would need to rise to around 4.5% to quell inflation. What does that mean in practical terms? 30-year fixed mortgage rates are currently running at about 7.54% and auto loans are about 6%. If the Fed raises rates 50% from their current level and auto loan and mortgage rates follow suit, as they historically have tended to do, mortgage rates could rise to over 11% and car loans to 9%. If that were to happen, it is likely that house prices would decline significantly, and car sales would crater.

The bottom line here though is still that we have a problem the rest of the world would love to have, a fast-growing economy that is creating more jobs than we have workers. Meanwhile, Europe and China are reporting economic statistics strongly indicating they may already be in recessions. If we had to choose problems, we would want ours and not theirs.

Until next week we pledge to continue to work hard to find better ways to manage your portfolios and provide the very best possible fiduciary advice and services.

Jeffrey W. McClure CFP®
M.S. Personal Financial Planning

Jacob A. McClure, CIMA®