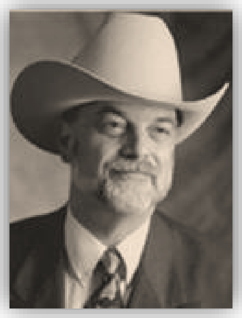

THE PERSONAL WEALTH COACH®

An SEC Registered Investment Adviser

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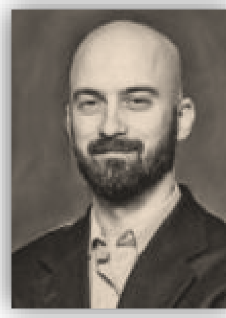

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TPWC Market and Economic Update

The Markets

Our dear, very old, and preferred market indicator, the S&P 500 Stock Index (SPX) turning in another stellar week as it rose 3.95% to 3901.06 on the 28th. That puts it ahead almost 9% from its recent bottom on Oct. 12, and up a whopping 74% from where it was in March of 2020, not to mention that it is 24% higher than it was three years ago. Of course, the Index is still down over 18% this year and 15% from a year ago. As always, it just depends on the timeframe you are using whether you see the market as "up" or "down." Our other followed index, the CRSP Mid-Cap Value Index, rose to 2321.17, up just over 6% for the week, but still down 10.63% this year.

The yield on the benchmark 10-year U.S. Treasury slipped back down to 4.02% by the end of the week, and with the 2-year note at 4.41%, the traditional Treasury yield curve is still well inverted. Interestingly, the highest yield among various maturities is the 1-year note at 4.55%. That unusual condition indicates that Treasury investors believe that interest rates will rise over the next year or so to about that level but will then fall back into the 4% range, longer-term. West Texas Intermediate crude oil rose about 2.8% to $88.30 in the face of the Saudi-Russia pledge to curtail global oil supplies and push prices up but remained well below the $120 per barrel price we saw following Russia's invasion of Ukraine.

The Economy

The economics chatter for the week centered on the Bureau of Economic Analysis (BEA) report that the U.S. economy grew at a 2.6% annualized rate in the third quarter. That report sorely disappointed those who have been saying and writing that we are already in a recession and things were going to get worse quickly. Digging deeply into the report does indicate that investment in both residential and commercial structures decreased a striking 26.4% and 15% respectively in the quarter but was more than offset by a 14% rise in the value of our exports and a more than 10% rise in equipment purchases. That news dovetails well with the rise in rates for a 30-year fixed rate mortgage to over 7%. The building sector of our economy is shrinking fast, but those who bought new buildings, both home and commercial, in the recent past are stocking them with the appliances and equipment needed to put the buildings in use.

Critically, the biggest component of the GDP calculation, personal consumption expenditures, rose at a net 1.4% rate. That was good news from several perspectives. First it was a solidly positive number, particularly considering that inflation has already been subtracted from it. Second, it rose at a slower rate than it was rising in quarters before the pandemic. That slower rise in spending is consistent with domestic economic growth returning to a more normal rate, and thereby has the potential to dampen inflation. Another important number in the report indicated that disposable personal income was rising at an annual rate of 6%. In short, people have more money to spend but are not spending it all. That they have more income means that an economic crisis is not at hand. That they are saving most of the excess cash flow, suggests again that inflation may have peaked and that the cushion against a downturn is solid.

With all the attention paid to the Commerce Department's, BEA GDP report, the Labor Department needed to say something important too, so they released their quarterly employment-cost-index change. The cost of employing a worker rose at an annualized rate of 5% in the third quarter. Unfortunately, the job of the federal reserve is to lower that annualized rise to about 3.5% or less so that the increased wages don't continue to drive prices up. The good news is that wages did not rise as fast in the third quarter as in the second, so we are moving in the right direction as the number of job openings relative to job seekers declined.

There were two major take-aways from those reports. First, the U.S. economy is running at or near capacity and has a lot of momentum, so it is a long way from approaching anything that looks like a recession. Second, the Fed will almost certainly raise short-term rates another 0.75% in November as they move to moderate U.S. economic growth back down to a level that is consistent with its 2% annual inflation goal. It does appear though that the voting members of the Federal Reserve Board are likely to slow their interest rate increases and may even pause or halt them around the end of this year. Moody's continues to forecast a "soft landing" in 2023 and we tend to agree. The wild cards are in the hands of the leaders of Russia and China though. Further COVID lockdowns in China or some dramatic escalation of the Ukrainian war could easily upset things. It is likely to be bumpy in the near future, but we continue to be reasonably optimistic.

Until next week, we remain hard at work, carefully selecting investments, building portfolios, and making a valiant attempt at providing the best possible personalized fiduciary service and advice to you our clients and sole employers.

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