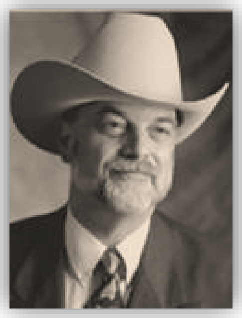

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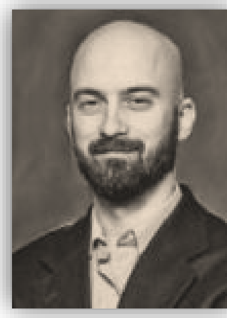

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November 4, 2022

TPWC Market and Economic Update

The Markets

The S&P 500 Stock Index (SPX), representing the stock market, slipped, and slid up and down for the week that ended on Nov. 4, but finally came to rest at 3770.55, down 3.35%. To again put that in perspective, it leaves the Index down 21.33% from its high point in early January, but up 5.24% from its recent bottom. It also is up about 69% from where it was in March of 2020 and up 26% from three years ago, giving it an average rate of return for the trailing three years of over 8% per year. Its smaller cousin, the CRSP US Mid-Cap Value Index, only declined 0.68% for the week, to 2305.34 leaving it down just over 11% from its high as the year began. We should not overlook an item of good news in the stock markets, as the Dow Jones Industrial Average rose 14% in the month of October, its best monthly performance since 1976.

The yield on the benchmark 10-year U.S. Treasury note crept upward, rising to 4.17% at the end of the week. With the two-year note yielding 4.66%, the inversion of the yield curve with its inherent forecast of an incoming recession, continued apace. The price of West Texas Intermediate crude oil, jumped almost 5%, to $92.60, driven by threats and suggestions that Russia would further curtail oil exports. Market observers warned of continued volatility as in China and the EU economies appear to be slowing toward recession, but in the U.S. demand remains high, while international supply is uncertain.

The Economy

As has been the case for the past several months, the economic news focus for the week was on what the Federal Reserve might do with interest rates as news was posted about the strength of the U.S. economy. Once more, what in different economic times would have been hailed as "good news" drove markets down and was seen as "bad news". Employers added a seasonally adjusted 261,000 jobs in October. That would be a great number if we were looking to have more employed people who would spend more money in our economy, but since the concern is that we have too much money being spent, more people employed, and with good wages, becomes bad news. On the other hand, the unemployment rate slipped to 3.7%, a wee bit higher than in September as more people entered the job market.

Not only did our economy employ more people, but the Labor department also announced that the employment cost index was up 5% from this time last year, as employers competed for workers. Perhaps at least partially reflecting that rise in wages and employment, The Commerce Department reported that consumer spending increased by a seasonally adjusted 0.6% in September, an annualized rate of 7.44%, a number we are sure the Federal Reserve did not want to see. Then, the Fed's preferred measure of inflation, the Core PCE Index, also from the Commerce Department, came in at 5.1%, far above its 2% target. Personal income continued its rise at an annual rate of about 5%, so people are not about to run out of money. The only suggestion of good news was that those rates were not rising quite as fast as they were a few months ago.

With our inflation rate stuck at about 5% and the Fed set on raising short-term rates to about that same level or a bit more, investors and economists are unhappy, but our problems are literally less than half that of the European Union. The EU announced that inflation there surged to a record high of 10.7% in October. The European Central Bank promptly raised its short-term rates 0.75%, as did the Bank of England, and the Federal Reserve.

Whether you consider it good news or bad news, the Institute for Supply Management (ISM) reported their October services Purchasing Managers Index (PMI), a consistently reliable indicator of business activity for the next three to six months, stood at 54.4 for October. Considering that any number above 50 indicates growth, and that 55 is about as fast as that growth can be sustained, that is a high number. It is even more significant when we consider that a majority of our GDP is in services. High growth is once more not what the Fed wants to see.

The bottom line remains much the same. The U.S. economy is on a tear with rising employment, rising wages, relatively few job losses, and plenty of fuel to keep going for some time. The contrast is stark between here and the economic indicators coming out of China and the EU. We do have an inflation problem, but it is less than half as bad as that in Europe and while we are likely to have some sort of recession next year, China may already be in one, and it is looking worse with each passing month as their government-supported real estate bubble looks more and more like it is collapsing.

Until next week, we pledge to do our best to do our duty to provide the best fiduciary portfolio management, advice, and service possible to you, our clients, and our sole employers. Have a good week and remember to offer a prayer of thanks and blessing on November 11th for all our veterans who have each made their sacrifices to allow us to live today in peace, prosperity, and freedom.

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