THE PERSONAL WEALTH COACH®

An SEC Registered Investment Adviser

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TPWC Market and Economic Update

The Markets

Our dear old S&P 500 Stock Index (SPX) turned in a quite decent Thanksgiving week as it ended its Black Friday activity early so traders could hit the stores. It closed above the psychologically important 4000 level at 4026.12 after rising 2.02% for the week. In keeping with our tradition of portraying the longer-term view of the SPX, it is still down 16% from its high point in early January as well as down 15.53% from this time last November, but it is up 12.4% from its recent bottom on Oct. 12, up a whopping 80% from March of 2020, and up about 15% from three years ago. Our other stock market indicator, the CRSP Mid-Cap Value Index, closed at 2438.48, up 2.15% for the week and is only down 6.11% from its January high point.

The benchmark 10-year U.S. Treasury note ended the week yielding 3.704%, a decline of 3.7% from last week, and well below the 4.475% of the 2-year note and the 4.284% of the 90-day T-bill, leaving us with a still thoroughly inverted yield curve. West Texas Intermediate crude oil (WTI) continued its long downward price slide from its record-breaking highs around $120 back in June, ending the business week here in the U.S. at $73.60 per barrel, the lowest price we have seen this year. Our journey across Central Texas this week revealed some seriously lower gasoline prices advertised, as declining WTI prices begin to show their effect.

The Economy

The predominate news from the U.S. economy is still positive. One of the principal leading indicators of which way our economy is headed is the durable-goods report, which tracks the orders received by manufacturers for goods that are meant to last at least three years. The total value of those orders jumped 1% month-over-month in October. The report for September was revised downward to 0.3%, which too was a good number, but was dwarfed by the surge in October. Transportation orders, particularly aircraft, sometimes distort that number, but even after eliminating transportation orders, the orders increased 0.5%. Another distortion is commonly caused by defense orders, but again, when we pull that out, but leave commercial transportation orders in, the value of was up a surprising 0.8% for that single month. Why are those numbers important? Because retail organizations making those orders tend to follow what their customers, who are mostly commercial enterprises, are telling them they want, and businesses can see trends moving in the economy far before either academic or government agencies do. The business, commercial side of our economy is anticipating growth over the next three years and more.

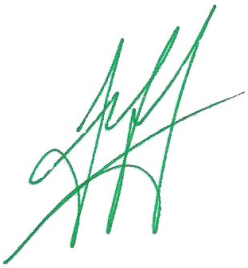
The reverse of that is quite evident in the housing market. New-home sales appear to be stabilizing after a dramatic fall, but that stability level is looking like it is below the pre-pandemic rate. Whether we will see significant home price declines is not clear, but the day of double digit rises in house prices seem to be over.

The weekly new filings for unemployment insurance rose marginally to 240,000 in the week ending on Nov. 19 but is still well below the break-even 270,000 number that would indicate stable employment rates. Quite a few more people have been reported to have been laid off, particularly in the headline grabbing large-tech firms, but the vast majority of those who lost jobs were able to find immediate employment and, as a result, did not file for unemployment insurance benefits. The single best indicator of the direction our economy is going is the labor market, and it is continuing to signal solid growth ahead.

We are still suffering from a shortage of labor, both skilled and unskilled. A recent study suggested that the U.S. labor force declined by about 6.2 million people during the pandemic. What the pandemic appears to have done was to push a large percentage of older "baby-boomers" into retirement who are now living on their retirement benefits and personal investments. Meanwhile farmers and farmer-organizations are pushing hard to get Congress to approve an expanded worker-visa program because they are having a lot of trouble finding agricultural workers.

Finally, the minutes of the Federal Reserve Open Markets Committee (FOMC) from their meeting early this month, revealed that there was majority support for decreasing the rate at which the Committee was raising rates to give the economy time to reflect what effect increased rates were having. At the same time, the FOMC supported going to a higher level before leveling off, suggesting that short term rates could rise to 5% or 5.25% from the 4.75% target set earlier this year. With the current fed funds rate at 3.75% to 4%, rates could about 30% over the next six months or so.

As the new week begins, know that we will be hard at work, always trying to improve the fiduciary service, advice, and portfolio management we provide for you, our clients, and sole employers.



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