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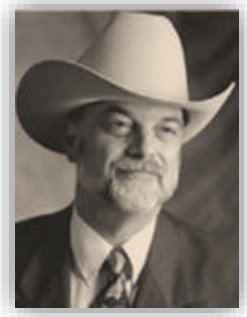

*Jeffrey W McClure* CFP®

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

TPWC

*Jacob A McClure* CIMA®

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

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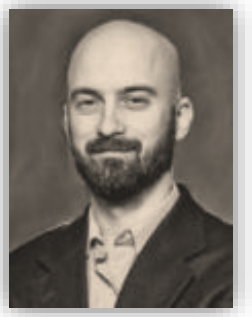
www.tpwc.com



jeff@tpwc.com

jake@tpwc.com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## TPWC Market and Economic Update

### The Markets

Our dear old friend, the Standard and Poor's 500 Stock Index (SPX), turned in a very respectable week, rising 1.13% to close out the week ending on Dec. 2 at 4071.70. That weekly rise in price brings the Index up 13.66% from its low point in mid-October but leaves it still down about 14.6% from where it was when the year began. As we do, it is pleasant to report that the SPX is now about 82% higher than it was in March of 2020, and about 30% higher than it was three years ago. Our other followed index, the CRSP US Mid Cap Value Index, closed at 2452.27, up only about 0.57% for the week, but with only a 5.58% loss in 2022.

The yield on the 10-year U.S. Treasury Note, commonly seen as a proxy for the entire bond market, followed suit as it declined about 5% to end the week at 3.51%, which, if anything, worsened the yield curve inversion as the 2-year note was still yielding 4.25% and even the 90-day T-bill posted a yield of 4.33%. The price per barrel of West Texas Intermediate crude oil seemed to agree with the stock market that the economy will remain strong and thereby create good demand for petroleum products for the foreseeable future as the price climbed almost 9% to $80.18.

### The Economy

The familiar theme of a robust U.S. economy acting like it was in full recovery mode rather than slowing down as the Fed wants, dominated the data reports for the week. The Commerce Department reported on Thursday that consumer personal spending rose 0.8% in just the month of October. That doesn't sound important until we consider that on an annualized basis, that works out to be a full 10% rise in spending. That scenario is exactly what the Federal Reserve does not want to see. There are not enough workers in our economy to fill all the positions open as we consumers have ramped up our post-pandemic spending on eating out, getting home repairs done, and a host of other service-related things. The demand for services is greater than the supply of people to provide those services, so the cost rises.

In that same Commerce Department report, that imbalance showed up as a one-year increase in overall Personal Consumption Expenditure (PCE) prices of about 6%. The good news is that month-over-month, the annualized rise in the core price index was only 2.43%. That is still above the Fed's targeted 2% annual increase, but far better than last month's 6.17%. In short, if the price increase we saw from October to November is a good indicator, then inflation may be well on the way to being controlled. The Fed is still fixed on raising rates further because economic theory states that spending follows wage increases and wage increases are generated by a labor shortage.

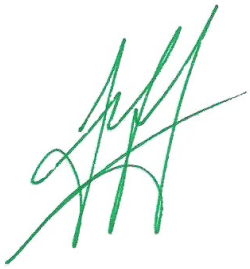
Unfortunately, from the perspective of the Fed, the Labor Department also reported this week that employers added 263,000 new jobs in November. That is far better than the 700,000 we saw earlier this year or even the 288,000 reported for October, but it is still higher than the 180,000 or so that would indicate that worker supply and demand had equalized. One of the issues listed in that report was that the U.S. domestic workforce has declined about 1.3% since just before the pandemic, primarily because of retirements. Meanwhile, wages were rising at a nominal rate of about 6.8% according to Moody's. Although that is about the same as core inflation, it appears the ease of finding employment is causing consumers to spend down their "excess" savings, driving prices up. About a year ago, U.S. consumer savings stood at about $2.3 trillion above where they were pre-pandemic. Various estimates put that total

at about $1.2 to $1.8 trillion now. If, as the Fed seems to believe, inflation will level off when cash comes back to historical levels and unemployment rises from its current 3.7% to about 4%, the battle between consumers and the Fed will likely go on well into next year and possibly longer.

In the manufacturing side of our economy, interest rate rises are distinctly having an effect as the ISM Purchasing Managers Index, for the first time since May 2020, came in at a reading of 49, on a scale where readings below 50 indicate contraction. At the same time, 87% of the respondents to the ISM survey reported that prices paid for goods to make their products had either remained the same or fallen. A separate survey from S&P Global confirmed the finding as it came in at 47.7. At the same time, the Bureau of Economic Analysis reported that in the third quarter, the U.S. GDP was growing at an annual rate of 2.9%. Moody's forecast for the fourth quarter is for it to remain about the same.

Once more what we are seeing is a very robust, healthy economy growing at or above its maximum sustainable speed driven on the services side with plenty of fuel to keep on doing so. Unfortunately, demand exceeds supply for workers and that appears to be generating inflation. The Federal Reserve is tasked by law to stop that from happening and they are working hard at doing exactly that. The Fed cannot control supply, but they can dampen demand, and that is what they are doing. How hard the decrease in demand hits is the big question. We continue to believe it could be a relatively soft landing, but the future is always uncertain.

Until next week know that we are here for you, working hard at providing you with the best service, fiduciary advice, and management, and sincerely caring about you and your financial and investment future.



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

Jacob A. McClure, CIMA®