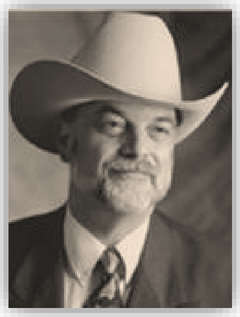

THE PERSONAL WEALTH COACH®

An SEC Registered Investment Adviser

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

TPWC

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

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

Serving Investors Since 1982

www.tpwc.com

jeff@tpwc.com

jake@tpwc.com

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TPWC Market and Economic Update

The Markets

Our preferred if perhaps flawed stock market indicator, the S&P 500 Stock Index (SPX) turned in a somber week's movement closing on Dec. 16th at 3852.36, down 2.08%. Earlier in the week when the Consumer Price Index came in with inflation clearly on the decline, the Index rallied, poking its head above the 4100 level with the rather rational thought among traders that the Federal Reserve would see unexpectedly low monthly numbers and be less aggressive in their rate increase language in the press release due on Wednesday. The best guesses at this point are that the CPI data came out too late for the Fed Board to consider it, resulting in a message that indicated policy was still set on "full steam ahead" for future interest rates. By the end of the week the mood among traders was that the Fed was likely to drive us into recession with an overaggressive set of rate increases and thus the market sagged.

As we do, it is wise to put this week's decline in perspective. From its top in early January, the SPX is now down 19.63%, but if we look back to as recently as mid-October of this year, it is up 7.53%. Going back to the market bottom in March of 2020 for our starting point, puts it up an astounding 72.18% and if we start our measure from exactly three years ago, just before the pandemic, it is up over 24%. The story remains the same, if you are a long-term investor, the market is distinctly "up" but if you are a short-term trader, it is "down." The other index we follow in order to see what is going on beneath the surface in the stock market is the CRSP Mid-Cap Value Index. That indicator joined its older cousin in declining in falling just over 2% for the week to close at 2330.84 It continued to hold up relatively well from its high in early January with a loss this year of 10.26%.

Since the reported reason for this week's stock declines was a fear of higher rates, one would reasonably expect to see a higher yield or rate from the benchmark 10-year U.S. Treasury Note. Instead, after dropping when the lower CPI figures came out, the yield just stayed down, ending the week at 3.48%. When it comes to the interest rate road ahead, the bond market is definitely operating from a different map than the one stock traders are using. Unfortunately, with the six-month Treasury Bill yielding 4.68%, that pesky Treasury yield curve is still warning of a recession sometime in the next 18 months or so. West Texas Intermediate crude oil (WTI) prices rose 4.27% to $74.50 per barrel. Given that only about six months ago, when there was little talk of an impending global recession, WTI traded at over $120 per barrel, and at around $90 a month ago, traders seem to have concluded that demand for the black, gooey stuff may be less in the future than they recently thought.

The Economy

While the most followed news for the week was, as usual, about possible interest increases by the Fed, some strong indications were reported suggesting economic growth is moderating. November retail sales fell 0.6% from October. That sounds terrible and is if compared with last year. On the other hand, if we look back to 2019, just before the pandemic and resulting recession, they are still up substantially. The news with the biggest bang for the week though was the Labor Department's Consumer Price Index (CPI) report. While the 12-month core CPI was still up a full 6%, both the top line CPI and the core version were only up 0.1% for November. The two-month reading looked even better, as core inflation rate only rose 0.2% for the two-month period. Those numbers put recent U.S. inflation well below the Federal Reserve's targeted level.

That raises the question, if inflation for the last couple of months has moderated to such a low level, why is the Federal Reserve still so focused on slowing things down? The answer was in Chairman Powell's news conference statement. He, and they, see a great danger in the speed with which wages are rising. The Labor Department also posted its Real Earnings Summary for November on Tuesday. Real (after subtracting inflation) hourly earnings increased 0.5% from October to November. That equates to employees earning about 6.2% more per year for doing essentially the same job. Those wage increases are concentrated in the higher worker-intensive part of the services industries, things like restaurants, hospitals, and other places where hands-on work is the norm. Wages are still lower, after considering inflation, than they were a year ago, but with their normal lag, worker income is catching up fast. The threat, at least as seen by the Fed, is that once wages start going up, employees tend to expect them to continue rising and with that extra money to buy goods and services, those workers tend to keep inflation running hot. That is what the Fed is fighting.

All in all, the U.S. economy, at least when looked at in comparison to just before the pandemic, is doing quite well. It continues to have good momentum, plenty of cash and credit to use as fuel, and is at or above full employment. Meanwhile, the inflation numbers are consistently coming down to a very tolerable level. Some of the more historically prescient economic forecasters are still holding out for a soft landing with either no or a very mild recession followed by a good recovery. We tend to be in that camp as well.

Until next week rest assured that we are not resting on our laurels but are working diligently to provide the best possible fiduciary portfolio management, advice, and services to you, our clients, and sole employers.

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

Jacob A. McClure, CIMA®