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THE PERSONAL WEALTH COACH[®]

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TPWC Market and Economic Update

The Markets

On this, the penultimate week of a very tumultuous 2022, the U.S. stock market, represented by the S&P 500 Stock Index (SPX) continued in its bipolar surges up and down as if not knowing good news from bad. In the end though, it wound up almost exactly where it started, closing out the week at 3844.82, down a mere 0.2%. We think it must be difficult to be a stock trader intent on selling as the threat of recession rises and buying on hopes of a soft landing. Any economic news suggesting the economy is doing well might mean that the Federal Reserve will overreact and push us into a recession but any bad news that the economy is slowing might be the leading edge of the much feared and forecast recession. This week's small move left the SPX 19.78% lower than its high in early January but 71% higher than it was back in March of 2020, and 18% higher than it was three years ago on Christmas Eve in 2019. Our other market indicator, the CRSP US Midcap Value Index, closed out the week at 2346.56, up 0.67% for the week, but still down 9.65% for the year.

The benchmark 10-year U.S. Treasury Note ended the week yielding 3.75%, about 7% higher than last week, but still substantially below the 4% (+) yields it had in October. The infamous Treasury yield curve remained stubbornly inverted with the 6-month note paying 4.67%. West Texas Intermediate crude oil prices inched upward all week, rising about 7% to \$79.66 per barrel. That price, interestingly enough, is almost exactly where it was last year at this time, despite its rise to over \$120 per barrel in June.

The Economy

The economic pundits remained focused on their often-vain attempts to forecast what the Federal Reserve was or was not going to do with interest rates in 2023. In the background some solid data was reported this week that strongly indicated that any signs of a pending recession were not to be found in the real world, as opposed to the various auguries those pundits use to loudly proclaim what the future holds. On Thursday, our favorite government bureaucracy, the Bureau of Economic Analysis (BEA), in the Commerce Department, announced its third estimate of the annualized U.S. economic growth rate in the third quarter of this year to be a whopping 3.2%! In that report the BEA also reported that personal consumption, the prime driver in our economy, was rising at a 2.3% annualized rate, up quite a bit from their second estimate where it came in at 1.7%. It is worth noting here that the BEA figures have had inflation subtracted from them, and thus are real increases in value.

Then, on Friday, the BEA came out with another critical report, its Personal Income and Outlays statement for November. That report showed the Personal Consumer Expenditure (PCE) price index, the one to which the Fed pays the most attention, only rose 0.1% for the month. Better yet, the average PCE rise over the past five months has only been at an annualized rate of about 2.4%. It also reported personal expenditures only rising at about 1.2% per year. Inflation may not be dead, but it sure has looked mild for the last five months. The good news is that if price rises continue in their subdued fashion, the Fed may not need to raise interest rates as much as is feared. The not-so-good, good news is that the BEA also reported disposable personal income was rising at an annualized rate of 8.73% (not adjusted for inflation) in October. It remains that rather dramatic increase in income that is the focus. Rising incomes generate more money to spend and that has the potential to reignite inflation. That concern was amplified as the weekly jobless claims number remained at an historically low number of 216,000 and US employers added a

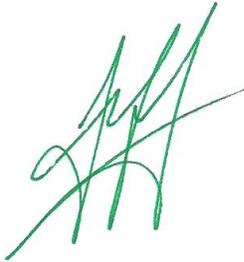
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net 263,000 workers to the workforce in November. Workers remain in short supply while demand for those workers is high, leading to an increasing price being paid for (and to) employees.

On the other side of things, US existing home sales fell an astounding 32% in November and now have been falling for ten consecutive months. The price of homes has held up reasonably well, but falling sales are a strong indication that home prices are likely to see a serious decline in the next year or so. The Chinese economy continued to show signs of stress as work and production was interrupted by what appears to be a severe and widespread outbreak of COVID-19 that is overwhelming hospitals and reportedly resulting in bodies being stacked outside designated COVID treatment centers.

The underlying U.S. economy remains on a roll with little sign outside of housing of anything even vaguely looking like an impending recession. Inflation appears to be abating to healthy levels. Even the formerly kinked supply chains look to have mostly returned to their normal functioning. The Federal Reserve continues to apply the brakes but at least is no longer increasing rates at three-quarters a percent each month. Once again, America seems to be the exception as a global recession is taking shape just about everywhere else. We remain guardedly optimistic as we wish for you and yours a very happy holiday season and a safe, prosperous, and rewarding year to come.

We do remain at your service over the holidays, so do not hesitate to contact us. We remain at your service, dedicated to serving our clients, our sole employers, and to remain free of conflicts of interest to the very best of our ability.



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