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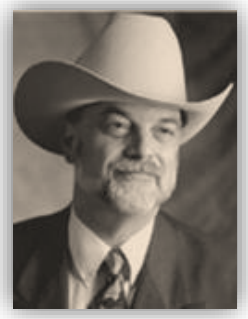


Jeffrey W McClure CFP®

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

TPWC

Jacob A McClure CIMA®

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

Serving Investors Since 1982

www.tpwc.com

jeff@tpwc.com

jake@tpwc.com

December 30, 2022

TPWC Market and Economic Update

The Markets

U.S. Stocks ended the last week of 2022 with a whimper. The S&P 500 Stock Index (SPX) our prime indicator for what stocks in general are doing in the United States each week, declined a mere 0.34% to close out the week and the year at 3839.50. That small decline in total value left the SPX down 19.44% for the year but still over 7% higher than it was in mid-October, a whopping 72% higher than it was back in March of 2020, and over 18% ahead of where it stood three years ago. The other stock market indicator we follow, the CRSP U.S. Mid-Cap Value Index, closed out the year at 2339.59, down 0.3% for the week and down about 10% for 2022. That set of numbers leaves the SPX down the most it has fallen in a single year since 2008.

The benchmark 10-year U.S. Treasury Note ended the year yielding 3.88% after beginning the year at 1.52%, a record rise in a single year of 156%. Despite the largest percentage increase in the 10-year Treasury yield in history, the Treasury yield curve also broke a record for being most inverted with the 6-month T-Bill yielding an astonishing 4.76%, annualized. Even the 30-year Treasury Bond, normally the highest yield on the curve, was lower, at 3.97%. West Texas Intermediate crude oil (WTI) closed out the week at $80.51 per barrel, 66% higher than it was at the beginning of the year, but a third lower than it was in June when the price shot above $120 .

The Economy

It may be good at this point to summarize what happened in the economy this year resulting in the highest year-over-year inflation we have seen in 40 years as well as the generally choppy, unstable numbers being generated by traders on Wall Street. First, at the end of last year, some of the largest tech firms were on shaky ground with their stock trading at what many considered to be absurd levels. At the same time, a speculative frenzy was clearly underway as companies, and items with little or no real-world value shot to prices that could only be considered insane. "Meme" stocks of companies that were rapidly headed into insolvency would suddenly rise to trade at thousands of times their most optimistic underlying value. Crypto "coins" and "non-fungible tokens" (NFTs) that arguably had no value other than that they were unique items traded at tens or even hundreds of thousands of dollars each. There was even a craze in stock offerings that had no underlying anything owned by the listing corporations, just a suggestion that they were going to invest in something to be named in the future.

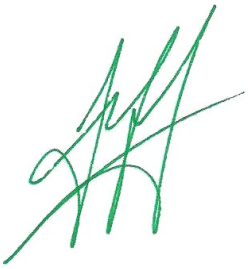
All such manias end unpleasantly and sometimes with an event. In this case the event was the first large-scale invasion of one country by another in Europe since World War II. That invasion set off a chain of events, as it, and a series of embargos against Russia, eliminated about 12% of the world's oil supply and about the same amount of wheat and some other grains. The sudden reduction in supply combined with a huge pent-up demand release as people departed from pandemic-related isolation triggered a cost-of-living increase between a low of about 9% in the US and as much as 23% in parts of Europe. By July, inflation began to taper off in the U.S. but continued to rage in Europe. Then, as if on cue, the new, more contagious versions of COVID-19 began to spread in China. The government there elected to impose total lockdowns across cities and regions, cutting the supply of manufactured goods from the world's prime supplier. Of course, the Federal Reserve, mandated by law to maintain stability and value in our currency, raised interest rates at the fastest percent rate in American history. Rapidly rising interest rates began to curb the flood of

borrowed money that was driving the speculative mania, and the ensuing collapse of meme stocks, crypto, NFTs, and the highest-flying tech stocks was shocking to many.

Perhaps one of the more surprising things about this iteration of mania and collapse in the speculative markets was not that the broad stock market declined in value, but how little it fell. The last two times we saw wild, unreasoned speculation take hold and then collapse, in the year 2001, and again in 2008, the broad value of stocks fell about 50% as investors panicked and sold the good with the bad. This time around, the investing public seems to have held on to what was learned in those events as, so far, the lowest market level was around 25% below its peak.

Meanwhile, as the year ends, the underlying U.S. economy continues to look quite healthy, though with a record-breaking decline in house sales. The labor market continues to act as if we are headed into full-scale growth despite the rapid rise in interest rates and the pundits' consensus broadcasts of a coming recession. While we hate to put this in print, it *is* different this time. The things about which we can be confident is that we are in uncharted territory, the American economy is performing far better than expected and is likely to continue to do so, and that the rest of the world appears to be facing some economic pain. Beyond that, the future is always uncertain, but we remain cautiously optimistic.

We are looking forward to serving you in 2023, with our role as fiduciaries operating in your best interests as our prime directive. Until then, take care, and have a very happy New Year.



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

Jacob A. McClure, CIMA®