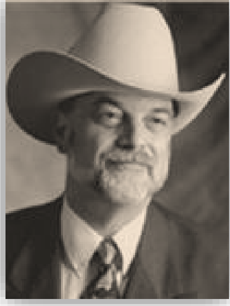

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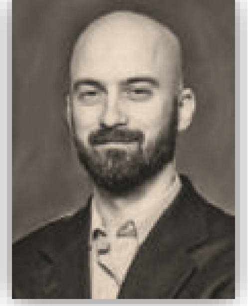

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TPWC Market and Economic Update

The Markets

The U.S. stock market, represented here by the venerable Standard and Poor's 500 Stock Index (SPX) got off to a good start in 2023, rising a delightful 1.45% to close out its first week of the year at 3895.08. That is, of course, also the year-to-date rise, but it is still down 16.72% from a year ago. Still, it is up 8.72% from its recent low in mid-October, over 74% from March of 2020 as the COVID pandemic hit us, and about 19% from this time three years ago. The CRSP Mid-Cap Value Index, our other followed stock market indicator, ended the week at 2412.07, up an even more delightful 3.10%, but still down just over 7% from its high at the beginning of 2022. The motivator appeared to be an unusual combination of more people hired but wage increases moderating.

The benchmark yield on the U.S. 10-Year Treasury Note fell to 3.55% from last week's 3.71%, largely on the same news that seems to have caused stocks to rise,. Unfortunately, with the annualized rate of the 6-month T-Bill at 4.79%, the yield curve remains solidly inverted. In the past two years, interest rates have risen about 120% causing bonds in general to lose more market value in 2022 than at any time since records have been kept (Bond values fall as interest rates rise.) West Texas Intermediate crude oil futures (WTI) fell over 8% to $73.76 per barrel for the week on indications that much of the world was or soon would be in recession. WTI is now down about 21% in the last three months, dropping about 7% from a year ago, but still 120% higher than it was in May of 2020.

People sometimes ask us why oil companies are not drilling more wells. The answer is that only about two and a half years ago the best U.S. oil was selling for $33.56 a barrel, less than the cost of pumping it out of the ground and transporting it. Investors and companies, burned once, are still recovering and in no hurry to jump in again.

The Economy

There was a lot happening and being reported in the U.S. and world economies. Congress passed and President Biden signed SECURE 2.0 into law as part of the omnibus federal spending package, deferring the start date for required minimum distributions (RMDs) from IRAs and some other retirement plans until age 73 starting this year and rising to age 75 in 2033. If you already started RMDs or were required to have done so last year but deferred your first withdrawal, you still are on the hook, but those turning 72 this year can wait another year. The law also increased allowable contributions to retirement plans for older workers as well as a host of other changes in pension tax law.

The numbers coming out of the Labor Department were sweet. Employers added 223,000 jobs in December, double the number needed for a steady-state economy, and unemployment dropped to a 53-year low of 3.5%. Yet, average hourly earnings only rose 0.3% for the month and only 0.2% for managers. Those numbers are very close to the ideal wage increases the Federal Reserve Board (Fed) would like to see. Despite the very hawkish minutes from the last Fed meeting, there is cause for hope that the wage increase slowdown will temper future interest rate increases if it continues. That would, in turn, decrease the probability of a U.S. recession in 2023.

Moody's Analytics now estimates fourth quarter U.S. GDP to have risen at an annualized rate of 4.1%. Part of that increase comes from a declining trade deficit. Another surprise was that construction spending for November rose

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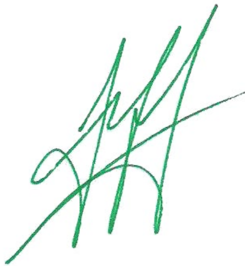
0.2%, defying the consensus estimate of a decline of 0.4%, As single-family dwellings became more expensive, there was a pickup in multi-family construction. Meanwhile, home sales were down almost 40% from a year ago and are likely to decline this year to levels last seen in the Great Recession. Average home price reports lag quite a lot, but it appears that prices peaked in April and were down 0.5% from September to October, the fourth consecutive month of price contraction.

The bottom line as we start a new year is much the same, but now with more evidence to support our view. The underlying U.S. economy is roaring along at or near its maximum capacity, but inflation is currently rising at very acceptable annualized rate of less than 2%, and hiring is still exceptionally high, particularly in the services areas. At the same time, all indications are that a large part of the rest of the global economy is or soon will be in recession. China, the leading driver of global economic growth for the past two decades, faces the impact of the COVID pandemic with a largely unprepared healthcare system. Europe, the other major player, is sagging under the weight of huge increases in energy costs and high inflation even as it is likely already in a recession. It is a good time to be here rather than elsewhere. The future is always uncertain, but we remain optimistic even as we are clearly in a global economic environment unlike any seen since about a century ago.

Until next week, hang in there and keep the faith as we here on the TPWC team do our best to provide you with personalized, professional, fiduciary advice, portfolio management, and a sincere desire to provide you with the best service humanly possible.



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