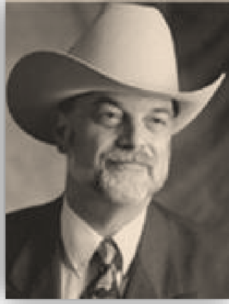

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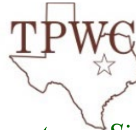

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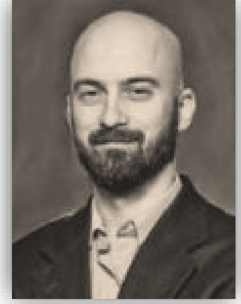

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January 13, 2022

TPWC Market and Economic Update

The Markets

The U.S. stock market, as represented by the S&P 500 Stock Index (SPX), turned in another stellar week as 2023 continued to unfold. The SPX ended the week at 3999.09, less than one point shy of the psychologically important 4000 level, having risen 2.76% in five market days. That rather impressive increase in value puts it ahead 4.16% this year, up 11.63% from mid-October's low point, an astonishing 79% from the bottom of the last bear market in March of 2020, and up about 17% from this point three years ago, just before the pandemic. Despite all those positive longer-term numbers, it remains down 16.56% from its high last year. It is now also above its 200-day moving average. Historically, if it stays this high for at least two weeks, it may be an indicator that the bear market is over. Of course, if that is true, then the next bull market would have begun in October of last year. It is easy to see these things in retrospect but quite a challenge to see them in real time. Our other followed stock indicator, the CRSP Mid-Cap Value Index, closed out the week at 2462.17, up 2.08% for the week and 5.24% in 2023, leaving it only down about 5% from its record high at the beginning of 2022.

The benchmark, 10-Year U.S. Treasury note ended the week yielding 3.49%, down less than 1% from last week and still anchoring a very inverted Treasury yield curve. At least now the 20 and 30-year T bonds have higher yields than the 10-year, but the shorter maturities all have a higher yield than we see on the 10-year note. With the economic tea leaves suggesting that we may see increasing demand ahead, the price of West Texas Intermediate crude oil, the U.S. benchmark, rose about as much as it had fallen in the week before to $80.01.

The Economy

All eyes were on the Labor Department's Consumer Price Index estimate for December as it came out this week. The headline number was, as it has been for some time, more than a little misleading. When compared with a year ago, prices (inflation) have risen 6.5%, but almost all that rise was six to nine months ago as the price of energy surged upward following Russia's invasion of Ukraine. More importantly, in the month of December, the average price *fell* 0.3% for the basket of goods and services measured in the report. Looking back two months, the cost of living is down 0.4%. We were pleasantly surprised to see that the core CPI (measured without the often-volatile food and fuel categories) rose only 0.2% for one month and 0.3% for two months. Those increases mean that inflation is currently running at somewhere between 1.8% and 2.4% annually, about where the Federal Reserve would like it to be. Shortly after the CPI report was published, members of the Federal Reserve Board confirmed that they anticipated the next increase in short-term rates would only be about 0.25%, much to the relief of stock investors.

Then, the University of Michigan released its Consumer Sentiment Survey (CSS). In our economy with the consumer driving about 2/3 of our GDP, the collective sentiment of those consumers is critical. The index rose from last month's 59.7 to 64.6. In June, as gasoline prices soared, the CSS fell, below the critical 50 level, so a jump to over 64 is a strong indicator that the prime drivers of our economy plan to keep on driving. Following those bits of data, Moody's Analytics, one of the more historically accurate prognosticators, raised its estimate of 4th quarter GDP to an annualized 4.3%, about as great a growth as our economy has been able to muster in decades.

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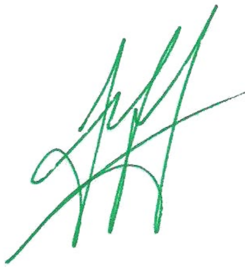
While things generally look good for the economy and the much hoped-for "soft landing" that will bring down inflation without causing a severe recession seems more and more likely, a new risk appeared on the horizon that could dump the economy all by itself. There is a minority of members of Congress who, because of the only 10-vote majority held by the Republicans in the House of Representatives, can effectively stop legislation from happening. They have collectively indicated that at least some of them are willing to see the government shut down and default on its debts rather than allow the Treasury to continue borrowing to pay for the bills already passed by Congress. Because the U.S. and world economies are largely based on the assumption that the U.S. government will never fail to pay its obligations, that would conceivably plunge us into a severe recession if the debt ceiling were not raised.

As is so often true, the underlying economy, and potentially the stock market, is looking healthy, but there are, as usual, risks appearing. We continue to be optimistic, but all the while recognizing that the future remains uncertain. It is good to remember at this point the old aphorism, "A bull market climbs a wall of worry." We do seem to have plenty to worry about, but we are also certainly not in the euphoric mood that typically precedes market crashes. Stay tuned.

Until next week, we and the TPWC team remain dedicated to serving you, our sole employers, with the very best service, and fiduciary advice and management we can muster.



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