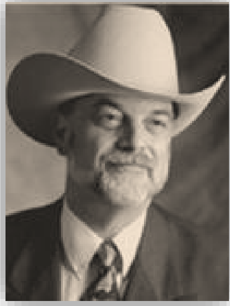


# THE PERSONAL WEALTH COACH®

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**TPWC Market and Economic Update**

## The Markets

The Standard and Poor's 500 Stock Index (SPX) roared through the fourth week of 2023 with a full head of steam, or more accurately, earning and hope, driving it across the 4000 level, up 2.47%, to close at 4070.56. That surge puts it ahead over 6% so far this year, and with only two trading days left in January, the old adage that "As goes January so goes the year." is in every stock trader's mind. As another saying goes though, "It ain't over 'til it's over." The SPX is still down just over 15% from its high early last year and 8.15% from a year ago. Putting it in a longer-term perspective, the Index is now 82% higher than it was in March 2020, up 13.6% from mid-October of last year, and 23% higher than it was three years ago. At the other end of the mainstream market from the SPX, the CRSP US Mid-Cap Value Index rose 2.46% for the week, closing at 2487.52, up 6.32% this year, and is now only down 4.23% from its high point about a year ago. In the reverse logic of this time of rising rates, it appears that the mid-week news that consumer spending declined in December and the fourth quarter GDP came in just a bit lower than expected caused stocks to rally.

The yield on the benchmark 10-year U.S. Treasury note wobbled around all week and, as it has been in the habit of doing this year, wound up nearly where it started at 3.52% after starting off the year at 3.79%. That stability is a relief to the whole financial community after seeing that interest rate rise an astounding 98% in just one year. For those who see the Treasury yield curve as a prophetic omen of things to come, things still look glum though, with the yield curve solidly inverted as the 6-month T-note was still offering an annualized yield of 4.81%. For no discernable reason, the price of West Texas Intermediate crude oil (WTI) fell to $79.46 on Friday, down 2.4% for the week.

## The Economy

As we mentioned above, the Commerce Department's Bureau of Economic Analysis (BEA) released its Personal Consumer Expenditures (PCE) report this week, and as usual we believe the news media quoted the wrong numbers, proclaiming that the PCE Price Index was up 5%. Yes, that is an accurate report for total PCE inflation for the whole of 2022, but the important numbers are in the one- and two-month columns. For the last two months, PCE prices in our economy have risen 0.1% per month. For the math challenged, that means that real inflation is now running at an annual rate of 1.2% per year. More, as the pundits also proclaimed, consumer spending declined 0.1% and 0.2% in November and December. Is that bad news? We say, "No." Consumer spending in earlier months was rising at an annualized rate of about 9% and that was simply not sustainable. It was also driving inflation higher. What the report indicates is that spending is returning to sustainable levels and inflation has come down to a level below the Federal Reserve's targeted 2% rate. Even the core PCE inflation rate is now running at between 2.4 and 3.6%, still a bit higher than the Fed would like, but by no means out of control, and below the average inflation rate we have seen over the past four decades. Our guess is that the reason for the media hype is that a headline reading, "U.S. Economy Continues to Run Along at a Normal Rate" would not sell many clicks or papers.

The other exciting report for economic geeks like us was again from the BEA, our favorite federal agency. Their first estimate of annualized Gross Domestic Product growth for the fourth quarter of 2022 came in at an inflation adjusted 2.9%. That is another *normal* number and represents almost exactly the consensus economic maximum sustainable growth rate for the U.S. economy. The report showed consumer spending rising at an annualized rate of 2.1% for the


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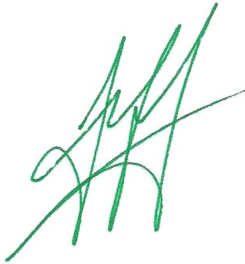
quarter versus 2.3% in the third quarter, again a very reasonable rate. Of course, the media jumped on the one big negative in the report, that residential investment was falling at an annualized rate of 27%. That single number reduced the GDP growth rate by 1.3%. Again, perspective helps here. During the pandemic and most of 2022, home improvement (residential capital investment) rose to the highest level since we have kept records on such things. That it fell back to a more reasonable and normal level in the fourth quarter should be no surprise and was a healthy move, but again, that is not very sensational. The other notable items in the GDP report were that we are buying a lot less from overseas than we were a year ago, and that businesses were restocking their inventories after running out of a lot of things over the past couple of years. Those items *added* 1.5% to the GDP.

Even the big headline-grabbing mega-tech company layoffs were healthy. It is now clear that the reason we are seeing tens of thousands of employee layoffs from the big tech firms, but a near record low number of unemployment claims is that those mega-tech workers laid off are being scooped up almost overnight by small businesses, and generally without a pay raise. What we see on all of this, and the other indicators that came out during the week, is a healthy, well-functioning economy returning to its historical mean, meaning "normal." That may not sell papers, but we like it.

Until next week, rest assured that we are continuing our endless quest for Truth, Justice, and the Fiduciary Way, as we devote ourselves to the service of our clients and sole employers.



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