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TPWC Market and Economic Update

The Markets

It was a wild week for the S&P 500 Stock Index (SPX). It puttered along until late Wednesday when Chairman Powell had his post-Federal Reserve Board meeting press conference. Just before that the SPX stood at 4046, but by the end of the day it had risen to 4150. It wobbled around near that level for the rest of the week then dipped a bit on Friday's astonishingly good jobs report before finally closing at 4136.48, up 1.62% for the week. As always, a bit of perspective is in order here. The SPX is now up 7.73% in 2023 after turning in one of the best January performances in decades. It is also up about 15% from mid-October and a whopping 84% from its low back in March 2020. It is now ahead about 22% from three years ago, just before the pandemic. It is though, still about 14% below its all-time high in January of 2022. Our other followed stock indicator, the CRSP US Mid Cap Value Index, closed at 2517.97, up 1.22% for the week and 7.62% so far this year. It is now only down about 3% from its all-time high.

The yield on the 10-year U.S. Treasury note finished the week at 3.53%, barely budging from last week's yield, despite having dropped to 3.34% on Thursday and then returning to where it started. The Treasury yield curve followed suit and remained solidly inverted with the 6-month and 1-year maturities both yielding about 4.8%. West Texas Intermediate crude oil (WTI) fell another 7% to $73.76 per barrel, putting it exactly where it was at the end of the first week of the year.

The Economy

For economics geeks like us it was a very interesting week. At the Federal Reserve's news conference mid-week Chairman Powell announced that "the disinflation process has started" although he also stated clearly that ongoing increases in interest rates will be appropriate. In that conference, he officially stated that short-term interbank rates had been raised 0.25% to a range between 4.5% and 4.75%, a level last seen in 2007. The consensus of both economists and apparently the voting members of the Board is that we will likely see quarter point increases at the next two meetings, then a pause as the Fed watches the data. That would take the top rate to 5.25% and seems to be included in stock investors' calculations. He concluded by commenting that labor markets are still tight and have the potential to cause inflation to persist.

Then, as they say, the other boot dropped. Our dearly beloved Bureau of Labor Statistics, (BLS) released its jobs report showing total non-farm payroll employment rose by an astounding 517,000 in January, and the unemployment rate dropped to 3.4%, the lowest it has been since 1969. Last year, when hiring was on a blitz, the average month's new jobs added number was just over 400,000. Now, with the economic tea leaves warning of a pending recession, hiring jumped to a level over 100,000 higher. That news flies in the face of the major layoffs announced recently at the big tech firms. Then, the report went on to say that total employment for both November and December were revised upward by over 70,000 jobs total. Wages, meanwhile, rose 0.3% for the month, at a 3.6% annualized rate, but much lower than December's 5.2% rate and labor productivity rose at a 3.0% annual rate in the 4th quarter.

Buried in the jobs report was the news that manufacturing employment rose by 19,000 in January. That was a real surprise because on Wednesday, the Institute for Supply Management (ISM) reported that their manufacturing Purchasing Manager's Index (PMI), a normally excellent indicator of where the manufacturing sector of our economy

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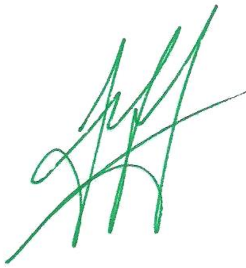
is headed, came in at 47.4, for January on a scale where numbers below 50 indicate contraction. In other words, manufacturers are seeing shrinking demand going forward but at the same time hired another 19,000 new workers! The anecdotal notes on the ISM report were that manufacturers are not planning to lay off workers and are hiring more because they are positive about the second half of the year.

If this sounds confusing, it is because it is. We are seeing consumer confidence rise, hiring accelerate, labor productivity, particularly in the service sector where employees are most wanted, shoot upward, while at the same time prices are leveling off and beginning to fall. On top of that, Friday's weekly new unemployment insurance claims dropped to a 9-month low of 183,000 and have been falling for three weeks as continuing claims fall too.

Every economic real-time indicator we have suggests we are in full growth mode. This is not at all like the lead up to any recession we have seen in the past half century we have been watching such things. Instead, inverted yield curve or not, this looks more and more like a healthy, growing economy with plenty of juice left in it. It will certainly be interesting to watch what happens over the next several months and years.

Until next week we do hereby solemnly pledge to do our duty to do our best to be fiduciary and caring in all we do for you, our clients and sole employers!



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