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# THE PERSONAL WEALTH COACH®

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## TPWC Market and Economic Update

### The Markets

The U.S. stock market, as represented by the Standard and Poor's 500 Stock Index (SPX) weaved and wandered up and down before closing out the week ending on February 10 at 4090.46, down 1.11%. That minor decline still left it 6.54% higher than when it started the year, up 14.18% since its recent low in mid-October, a still astonishing 83% higher than it was in March of 2020, and over 23% higher than it was three years ago, just before the pandemic. Of course, all that good news does not erase the fact that the SPX is down about 15% from its record high at the beginning of last year. Our other followed index, the CRSP US Mid Cap Value Index, slid 1.36% to 2483.69 for the week, but remains up 6.16% this year and is only 3.37% lower than its record high as 2022 began.

The yield on the benchmark 10-year U.S. Treasury note rose all week to close at 3.74%, a nearly 6% increase. The driver there was the same factor that depressed stocks, a growing acceptance that the Federal Reserve was serious about increasing interest rates until the economy shows some signs of slowing to what the Board considers to be a non-inflationary rate. Last week's blockbuster jobs report generated warnings from Board members that rates might have to go as high as 6% to take the steam out of the labor market. Meanwhile the Treasury yield curve remained determinedly inverted with the 4-month, 6-month, and one-year T-bills all yielding 4.89%. West Texas Intermediate crude oil rose in price all week and reached \$79.83, up 8.2% for the week, as the market digested Russia's announcement that it would cut oil production by 5%.

### The Economy

There was relatively little new news for the week, but there were a host of aftershocks as pundits and corporate chiefs digested the avalanche of conflicting data that came to light last week. Federal Reserve Chair Jerome Powell once more warned in direct terms that he believed interest rates would likely rise higher and stay higher longer than the markets seem to think. He reemphasized that as long as the jobs market is overheating, the potential for a reignition of inflation remains a real threat and the Fed will keep on raising rates until that threat is eliminated.

As if to emphasize just how hot the job market is in the United States, the Labor Department announced that new unemployment filings for the week that ended on February 4 were an unusually low 196,000. So, even with the large layoffs being announced by big tech firms across the country, relatively few people are filing for unemployment payments. Why is that? First, the mega-tech firms only employ less than 2% of the American workforce. Second, smaller businesses have such a huge number of job openings that the tech layoffs are moving directly into new jobs without the need to file for unemployment benefits. Unlike the heavy industry layoffs we saw several years ago in which most were in places like Detroit where just about all businesses were reducing their payrolls, most of the big tech companies are in cities where demand for employees is among the highest. Another odd factor in those layoffs is that most of them are targeted at college-educated, white collar and management positions. That set of workers has the lowest unemployment rate and the quickest hire rate in our economy.

Deutsche Bank became the first major investment house to take the position that the "Fed pivot" to lower rates later in the year, is likely to be a mirage. Its official assessment was that the 10-year T-note yield would rise to 4.2% as the year progresses and would not decline from there until next year at the earliest. Both bond and stock investment firms

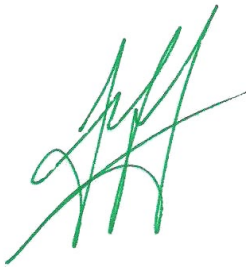
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have generally taken the position that the benchmark 10-year T-note will be yielding about 3.4% by the end of 2023. Higher interest rates for longer imply lower profits for corporations and losses in bond portfolios.

Meanwhile, Goldman Sachs published an estimate that American's have now spent about 35% of the increase in savings positions they accumulated during the pandemic. There are two ways of seeing that. One is to realize that there is still a lot of cash in peoples' checking and savings that is likely to be spent. The other is to note that the "excess" spending that has driven both our economy and inflation is not going to go on forever.

Last but certainly not least, as of Friday, February 10<sup>th</sup>, last quarter's earnings reports are in for 346 of the S&P 500 stock companies. Those earnings are down 6.2% from the same period last year, but revenues were up 5.6%. More, over 71% of reporting companies had earnings and forecasts higher than expected. Note the SPX is down 15% for the same period, and the picture begins to appear that the stock market may be in for more recovery after overreacting to expected losses in 2022. Only time will tell, but we remain reasonably optimistic, particularly for the longer term.

Until next week, we, as always, remain at your service as we continue the campaign for truth, justice, and the fiduciary way.



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