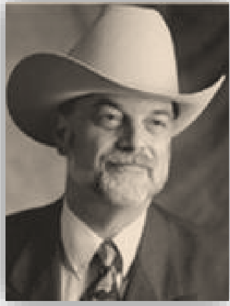

THE PERSONAL WEALTH COACH®

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TPWC Market and Economic Update

The Markets

It was another bumpy, sideways-sliding week for the S&P 500 Stock Index (SPX), our preferred, albeit flawed, indicator of what is going on in the U.S. stock market. The movement was up, but very rough through mid-day on February 16, then it dropped from around 4134 to around 4050. On Friday it crept back up to 4079.09 to end the week, down 0.25%. Putting that number in perspective, the SPX is, as of February 17, 6.24% higher than at the beginning of the year, up about 14% since mid-October, 82% higher than it was in March of 2020, and up about 23% over the last three years, from just before the pandemic-induced bear market of 2020. It remains though, down almost 15% from its high at the beginning of 2022. Our other stock market indicator, the CRSP Mid-Cap Value Index closed out the week at 2486.46, up 0.11% for the week, 6.28% year-to-date, and 14.4% from mid-October, but remains down 4.27% from its high last year.

The benchmark 10-Year Treasury note yield ended the week on the 17th at 3.82%, 2.14% higher than last Friday, but at about the same level it has been since last September. The Treasury yield curve became even more inverted with the 1-year note now yielding a full 5%, while at the other end of the maturity curve, the 30-year U.S. Treasury bond was only paying 3.88% per year. The Treasury bond market is saying, in effect, that market participants expect Treasury interest rates to run on at about 4% for the next several decades after peaking at around 5% a year from now. Those assumed rates are about 2.5 times the rates we have seen over the last decade and the assumption is creeping higher each week. West Texas Intermediate crude oil (WTI) prices slipped about 4.4% for the week to $76.33 with little change since last November.

The Economy

All eyes, and certainly those of stock traders, were focused on the Consumer Price Index (CPI) report published by the Labor Department on Valentine's Day. The headline CPI was 6.4% higher than a year ago, which, while high, is not as high as the one-year numbers we saw last year. The month-to-month number was what jolted observers though. For the month of January, the CPI rose 0.8%. If that one-month figure were to continue for the rest of the year, it would mean that inflation was running at about 9.6%. Since the last 12 months only saw a 6.4% rise, or so the argument goes, then inflation rising at 9.6% means it is totally out of control and, logically, the Federal Reserve will have to force the economy into a full-blown recession to tamp it down. If we see those numbers remain high for a couple of more months, then we will have reason to be concerned. If, on the other hand, February's numbers come in lower, as they have for the past several months, then it was a blip.

The perception of higher inflation and therefore rates to come was reinforced by the Producer Price Index report, again from the Labor Department, as it was reported as having risen 0.6% in January. Again, that was a strange number, as it would indicate prices are rising at a 7.2% annualized rate, but the 12-month trailing rise in prices was only about 4.5%. Either some strange force has suddenly supercharged inflation through the entire supply chain, something is wrong with the measurement formula, or there was a one-time factor at the beginning of this year. Yet another number released this week seemed to contradict the inflation figures. A lot of what we buy here in the United States is imported, and the U.S. Import Price Index for January fell 0.2% ,while the price we received for our exports rose 0.8%. Historically, import prices lead inflation, and import prices have been falling for months.

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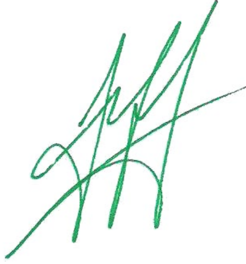
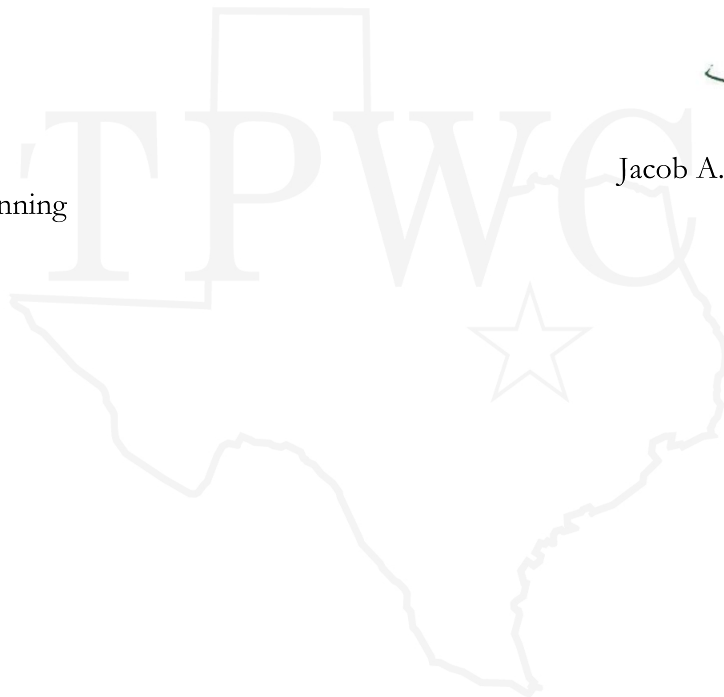
Then came the report that U.S. consumers, the drivers of our economy, increased their spending by a full 3% in January, one of the biggest jumps in 20 years. That followed a Labor Department report that hiring doubled that month, adding more than a half million jobs, up from 223,000 in December. Unemployment claims, after being stubbornly low last week, fell even further this week too. All that added to the signs that the U.S. economy remains at full steam ahead, despite the many published forecasts of an imminent recession.

The bottom line we get from all of this is that the U.S. economy is in probably better shape than at any point in the last half century. The one change we see unfolding is that the bond market and we agree that higher interest rates are likely here to stay for a long time and may get higher than most suspect.

Until next week, we remain at your service and dedicated to Truth, Justice, and the Fiduciary Way.





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