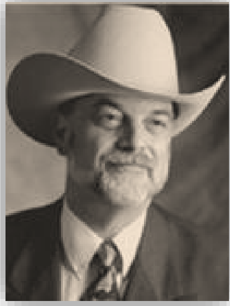

THE PERSONAL WEALTH COACH®

An SEC Registered Investment Adviser

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TPWC Market and Economic Update

The Markets

The S&P 500 Stock Index (SPX) serving in its role of U.S. stock market indicator, turned in a depressing week ending on February 24. It dropped below the emotionally important 4000 mark to close at 3970.04, down 2.67% for the week. Fortunately for those of us who like positive numbers, it is still up 3.4% year to date, up 10.82% from last mid-October, and over 77% higher than it was just under three years ago in March of 2020. It is also about 31% higher than it was in the closing days of February 2020, just before it fell in response to the COVID-19 pandemic. That puts its three-year compound average rate of return at 9.39%, substantially higher than its long-term averages but it does remain down over 17% from its record high at the beginning of 2022. Once more, whether you consider the market up or down depends largely on your time horizon. The other indicator we use, the CRSP US Mid Cap Value Index, joined its older sibling in retreating, and was down 2.73% for the week, closing at 2421.06. That index is now up 3.48% this year but down 4.10% from a year ago and down 6.78% from its high at the beginning of 2022.

The yield on the benchmark 10-year U.S. Treasury note rose to 3.95% from last week's 3.88%. That rise did not help to correct the yield curve inversion with the six-month and one-year Treasury bills yielding 5.06% and 5.05% respectively. All listed maturities of Treasury securities except the 10-year note and the 30-year bond are now above 4%, a dramatic departure from what we have seen over the last decade. A year ago, the highest yields were in the 20- and 30-year T-bonds at 2.05% and 2.01% respectively, with the 10-year note yielding 1.63%. Morningstar is reporting that its Long-Term Treasury Bond Index is showing a one-year loss of over 22%, even with all interest reinvested. The Bloomberg US Long-Term Bond Index isn't doing much better with a loss of 18.17% from a year ago. West Texas Intermediate crude oil (WTI) wandered sideways to $76.41 per barrel, essentially where it was last week.

The Economy

All eyes were once again focused on inflation and jobs data and the resultant speculation about what the Federal Reserve was likely to do over the next year in response to that data. Not so much followed or noticed was a pickup in business activity both here and in the Euro-Zone.

First the alarming news credited with causing the stock market to slide and bond rates to rise. The Federal Reserve does not give as much weight to the Consumer Price Index (CPI) published by the Labor Department's Bureau of Labor Statistics (BLS) as it does to the Personal Consumption Income and Outlays Index (PCI) published by our beloved Bureau of Economic Analysis (BEA) at the Commerce Department. So, when the BEA speaks, traders listen. January's PCI was a bit of a shocker, much like the CPI. The one-year CPI Inflation figure was 5.4%, and by excluding food and energy, the "core" PCI came in at 4.7%, both a tenth of a point higher than last month's. That small change was not the surprise. The shocker was that the one-month rise in PCI prices was a whopping 0.6%, while in December the increase was just 0.3%. The stock and bond markets promptly fell as the pundits proclaimed that those rising numbers would surely force the Fed to raise rates high enough to crush the economy. The reality is that a one-month blip does not make a Federal Reserve policy.

Also, in that report though was what is possibly a more important number. Personal Consumer Expenditures (PCE) rose a quite surprising 1.8% in the month of January after falling 0.2% and 0.1% in the last two months of 2022. The

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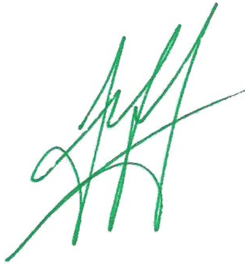
"real" PCE, adjusted for inflation, increased 1.1%, with a 2.2% increase in spending on goods and a real 0.6% increase for services. Historically, the spending jump is in December as Christmas approaches, but for this year the jump appears to have been displaced to January. The detailed information in the report suggests that consumers pulled back on spending toward the end of last year but surged forward as 2023 began.

Another report came out, this time from S&P Global, stating that the composite output for U.S. businesses rose to 50.2 for February, on a scale where numbers above 50 indicate expansion, after sagging below 50 late last year. That report, when combined with the PCI and PCE reports strongly suggest that the U.S. economy is accelerating rather than slipping into recession. When we include the rising consumer confidence readings that are coming in, the data suggest that the debate about our near-term economic future should not be about whether we have a hard landing (recession), soft-landing (slow to stagnant growth), but should include a third option, that we might have an accelerating growth scenario despite rising rates and negative tea leaves.

Our view remains that things really are different this time. We also continue to see the earmarks of a rebounding rather than a declining economic environment. Stay tuned. This may well prove to be quite interesting.

Until next week we remain focused on providing the best sound, fiduciary investment and financial advice to you, our clients and sole employers!



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