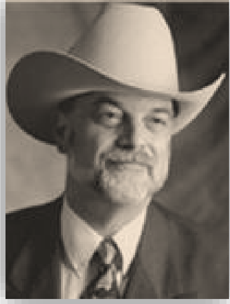

THE PERSONAL WEALTH COACH®

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TPWC Market and Economic Update

The Markets

It was a rough week for the stock market as the S&P 500 (SPX) slid 4.56% to close at 3861.59. First, Chairman Powell, then other members of the Federal Reserve Board continued to emphasize that interest rates will go higher and stay higher than most people seem to believe, but that they would be open to whatever new data indicated. On Friday, they got some of that new data as the Labor Department reported that the U.S. economy had added a net, seasonally adjusted 311,000 new jobs in the month of February, and the market did not like it. More on that below. The SPX is still up 0.58% year to date. It is 7.8% higher than it was in mid-October of last year, and about 73% higher than it was in mid-March three years ago in 2020 but is now down 19.43% from its high in early 2022. Our other stock market indicator, the CRSP US Mid Cap Value Index fell 6.67% for the week to 2280.68, taking it to a 2.36% decline this year and about 12% below its all-time high in January 2022.

The benchmark 10-year U.S. Treasury note yield fell enthusiastically to 3.7% from the near 4% levels it has recently held as the yield curve became even more inverted. The 6-month Treasury bill was offering an annualized rate of 5.17% as the market closed, while the 30-year bond slipped down to the same 3.7% as the 10-year note. Even the 90-day T-Bill, another benchmark yield, rose above 5%. West Texas Intermediate crude oil (WTI) fell about 4% to $76.61 per barrel, heralding potentially lower prices at the pump.

The Economy

We are living in strange times. The corporate bond market continues to signal good times ahead, while the Treasury yield curve is screaming "Recession!". The leading economic indicators, led by that same Treasury indicator, agree that we not only are likely to have a recession coming, but that we should already be in one. Out where recessions live or die though, businesses are hiring like nothing but boom times are ahead of us. A careful look at the Labor Department's Employment Situation Summary only adds to the confusion. While employers hired a surprisingly large number of new employees in February, the unemployment rate rose to 3.6%. That was because apparently a lot of new people entered the job market in search of work as the labor participation rate rose to 62.5%. In other times, those numbers would be a delight. More people working and new entrees into the workforce are a key element in economic growth. The problem is that those people with new jobs are suddenly earning money that they are likely to spend.

Given that the Federal reserve is focused on slowing spending in the U.S. economy, that good news is potentially bad news. On the other hand, the fact that the unemployment figure went up as more people entered the workforce was likely the factor that produced a pleasing number in that jobs report. Wages only rose 0.2%. Annualized, that amounts to a 2.4% increase. When that number is paired with the approximately 1.7% annualized productivity rise we saw late last year, the inflationary factor in those numbers equates to about 0.7% per year, well below the Fed's 2% goal. Throw in the revisions to earlier jobs reports from December and January reducing the number of new jobs gained for those months by about 35,000 and perhaps, just perhaps, the Fed will not throw on the brakes in an emergency stop.

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One more shocker came at the end of the week as Silicon Valley Bank (SVB), which was only a year ago a standout example of the wealth being generated by new tech companies, was ordered closed and its assets seized by the Federal Deposit Insurance Corporation as it was declared insolvent. While there is little indication that SVB is an indicator of the financial health of the banking industry, it may be a warning of something else. SVB's downfall came not from issuing bad loans, but from buying long-term Treasury bonds to generate income. As the high-tech startups in Silicon Valley started to sag under the rising interest rates of their loans, they began drawing out money to cover expenses they had previously deposited at SVB. Trying to remain conservative, SVB had bought a lot of long-term Treasury bonds rather than make a lot of loans. To create cash for those withdrawals, SVB had to sell some of those Treasuries, and as interest rates rise, the market value of bonds falls. Because of the regulations put in effect after the banking crisis of 2008-2009, SVB had to post the market value of their Treasury portfolio regularly, and as it fell, large depositors pulled their money, forcing SVB to sell bonds and realize those losses. Then came the notorious run on the bank this week and the regulators and the FDIC stepped in to seize SVB. It has been 40 years since we witnessed what rising interest rates can do to a bond heavy portfolio like some banks and many insurance companies depend on. We suspect this is not the end of the story.

Once more, the economic picture remains the same. The U.S. economy is showing every sign of being in excellent shape, creating jobs, making things, providing services, and generally rocking along about as good as things can get. Even some of the underlying signs of inflation and too-fast job creation appear to be abating. At the same time, the fear remains that the Federal Reserve will overreact and bring the party to a crashing halt. We can only watch and see.

Until next week, we remain at your service, striving to do the next right thing, and valiantly upholding the fiduciary way!

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