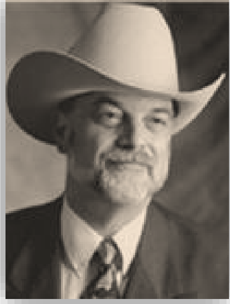

THE PERSONAL WEALTH COACH®

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March 24, 2023

TPWC Market and Economic Update

The Markets

For yet another week the change in the S&P 500 Stock Index (SPX) will come as a surprise to anyone who has been watching or reading the headlines. The Index closed at 3970.99, *up* 1.39% for the week, and up 2.83% from its recent dip a couple of weeks ago. This week's move leaves the SPX 3.42% higher than it started the year, 10.84% higher than in mid-October, and an always astounding 77% higher than it was three years ago as the pandemic panic took hold. Admittedly, it is still about 17% lower than it was in early January of 2022, but from a long-term investor's view, we have a lot to smile about. The other index we watch, the CRSP US Mid Cap Value Index, joined in the party, rising 0.48% for the week to close at 2216.86. It is now down over 14% from its top in January 2022 and 5.25% this year. The culprit in its recent poor performance appears to be regional banks, where there has been a blanket sell-off.

The benchmark 10-year U.S. Treasury note yield, moved not at all from last week, closing at 3.38%. That is not to say nothing happened during the week as the yield rose to 3.6% midweek before sliding back to end the week exactly where it started. While the Treasury yield curve remains technically inverted, it moved closer to its normal shape with the 30-year bond at 3.64%. On the short side of the curve, the highest yield is now on the 4-month T-bill at 4.78%. West Texas Intermediate crude oil (WTI) crept upward 4% to $69.20 but remained lower than it has been since August of 2019.

The Economy

The week's pundit focus was divided between whether a global banking crisis was in the making and reading the tea leaves on what the Federal Reserve Board (the Fed) would do with future interest rates, seasoned with speculation on what anything they might do might mean. If that sounds confusing to you, you are in good company, as the "experts" seem to be taking about every possible position, all the while insisting that disaster is imminent. We find it interesting that what one talking head demands the Fed do immediately is what another is proclaiming is the sure route to total financial collapse. The pundits want to blame the Fed or the President. Somehow, they seem to miss that the biggest banking failure in this event so far was in Switzerland, with Germany's Deutsche Bank at risk. For any who don't follow such things, the U.S. Federal Reserve, Treasury, and President have nothing to do with the regulation of giant Swiss and German banks.

Amid the flurry of bank runs and rampant speculation on the health of the world financial system, the Fed announced that it was raising short-term inter-bank lending rates by 0.25%, to between 4.75% and 5%. Chairman Powell appeared to leave all paths open, but also seemed to suggest that the next move might be to hold pat or possibly add another 0.25%. As both the action and the potential action were exactly what the bond mavins were expecting, not much happened in the bond market and the stock market rose.

The big news was that Credit Suisse (CS), with a tangible book value of $45 billion, was seized by Swiss regulators following a run on the bank's deposits. At the end of the week, it appeared that UBS, the other Swiss megabank, would acquire CS's assets for about $7 billion. Yes, those numbers are correct. Once more the issue was that a Twitterstorm emerged warning depositors to pull their money. Like the U.S. regional banks that failed last week,

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Credit Swisse had no problem with bad loans or bonds, or any of the other maladies that were endemic in the 2008 banking crisis.

There were scandals at CS in years gone by, and that reduced the critical store of trust that its larger depositors need to have, but new management was in place and its book of loans was healthy. Banks are critical elements in our economic infrastructure, but they are and always have been in a fragile position. A bank's primary source of revenue comes from taking short-term deposits on which they pay a relatively low interest rate, and then loaning out most of that deposited money in longer-term loans at a higher rate. According to Bankrate.com the average savings or bank money-market account holder in the U.S. is being paid about 3%, while the average new car 60-month loan is about 6.5%. The problem is that once the car loan is made, the money loaned cannot be fully retrieved for five years but the depositor can demand their money any time they want. U.S. Banks do retain at least 10% of their deposits as cash, but if the mass of depositors demands more than 10% of their money back in a social media-inspired bank run, some government agency must step in and provide the funds, and the bank is usually either seized by the regulators or another bank is funded by a government agency to purchase the failed bank.

Meanwhile the U.S. economy still appears to be rocking and rolling along. New unemployment claims, already historically low, moved lower. Manufacturing seems to be stabilizing, and even the balance of trade looks better. There are suggestions that office-space commercial property is in for a hard time as work-from-home continues to drive down office rents. That is a potential problem, but one well anticipated, and thereby unlikely to trigger a crisis. The one serious threat is that Congress will fail to raise the debt ceiling, thereby requiring the U.S. Treasury to not pay those owed money for debts mandated by Congress. Failure of the United States to pay its legal obligations would yank the foundation out of the U.S. and world financial systems and create a bone-fide disaster.

Until next week, rest assured that the entire TPWC team is on the job, even from the depths of desert canyons, working hard to do their best to do their duty to you, our clients and sole employers.

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