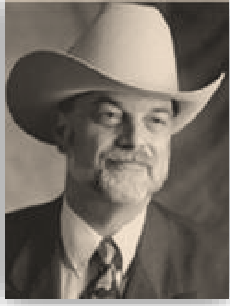

THE PERSONAL WEALTH COACH®

An SEC Registered Investment Adviser

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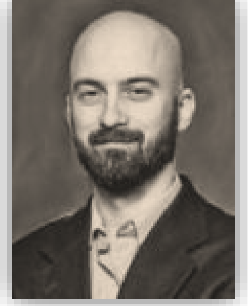

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March 31, 2023

TPWC Market and Economic Update

The Markets

That old saying on wall street that "Bull markets climb a wall of worry." has rarely seemed so apt as what we have seen recently. For the last several weeks, and particularly since the failure of Silicon Valley Bank, Signature Bank, and Credit Suisse, little could be found in the news suggesting anything but doom and gloom were ahead economically. The news wasn't much better this week, but the S&P 500 Stock Index, arguably one of the best single economic predictors, rose 3.48% to finish out the week and the first quarter of 2023 at 4109.31. That rise puts it ahead 7.03% for the quarter and year to date. The Index is now 14.71% higher than in mid-October of 2022 and a mind-numbing 83.66% ahead of where it was in March of 2020, only three years ago. Again, we must also note that the SPX remains over 14% lower than it was in January of 2022, but that decline is dwarfed by the gains we have seen over the longer term. Our other followed stock market indicator, the CRSP US Mid Cap Value Index, rose an eye-opening 4.52% for the week to 2317.12. It is now down a bit less than 1% this year and about 11% from its record high last year as regional bank stocks continue to weigh on the Index.

The benchmark 10-year Treasury note ended the week yielding 3.48%, only a tenth of a percent higher than last week and the week before. The yield curve remained stubbornly inverted with even the 90-day T-bill offering a 4.85% annualized yield. The price per barrel of West Texas Intermediate crude oil (WTI) rose a quite substantial 9.28% for the week to $75.62 as a pipeline supplying oil from the autonomous Kurdish region of Iraq through Turkey to the Mediterranean was closed when a tribunal at the International Chamber of Commerce found in favor of Iraq in a lawsuit. As much as some of us would like to live in an economy limited to North America, just how global the real world is can be seen when a pipeline shutdown in Kurdistan, a place most Americans could not find on a world map, has the potential to raise fuel prices in the United States by nearly 10%.

The Economy

This week's headline economic news was much more mundane but perhaps more significant than that we have seen recently. Our dearly beloved Bureau of Economic Analysis at the U.S. Commerce Department announced that U.S. Personal Consumer Expenditures rose 0.2% in February, matching the figure for January as inflation-adjusted Disposable Personal Income rose the same amount. At the same time, the number reputed to be critical to the Federal Reserve Board as its prime inflation indicator, the PCE Price Index rose 0.3% for both the regular and core indicators. Just as important as the current monthly inflation number is the fact that the monthly PCE deflator, as it is known to economists, has been steadily declining for the last four months both on an annual and monthly basis. If the momentum for inflation is headed lower, then the Federal Reserve has a good excuse to not raise future rates as much as they would if that number were increasing.

The other news we consider critical for the week was the announcement by the Conference Board that its well-respected Consumer Confidence Survey, conducted ten days after the collapse of SVB, increased to 104.2, with the Expectations Index, what consumers believe the near future will look like up 4.2% for February. While the details of any consumer confidence survey have generally not been good predictors of economic activity, the fact that confidence has held up well and consumers state they are likely to spend more money in the next six months. That is critical because, unlike many other countries, we Americans largely determine if we are going to have a recession by

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our own actions. In an economy like that of Germany, China, or Japan, which largely is driven by exports, economic growth or contraction is in the hands of their foreign customers. Here in the United States, we are our prime customers with about two thirds of our Gross Domestic Product coming from domestic consumer purchases. If the U.S. consumer is confident and has money to spend, it is hard to have a recession.

More information came out about the underlying causes of the recent bank failures. The key issues appear to have been that both SVB and Signature bank had an unusually high percentage of their customer deposits above the FDIC's 250,000 insured limit, their customers were unusually high-tech oriented, were comfortable moving large quantities of money with a smartphone app and were far more sensitive to social media alarms than those of other banks. As a result, they had a high incentive to quickly pull their deposits, had the means to do so in their hands, and were more susceptible to be moved to action by Twitter "influencers" than the typical bank customer. The two U.S. bank failures as well as that of Credit Suisse now appear to not to be so much a result of financial weakness at the bank as they were from a form of mass hysteria generated by a social media app.

The bottom line continues to be the same. The U.S. economy appears to be healthy and growing, albeit at a more sustainable rate, and inflation is declining. The prime economic risk also appears to remain that of a federal debt default if the debt ceiling is not raised by sometime early this summer.

Until next week, with Jeff scheduled to be back from his exploration of lost civilizations, rest assured that the TPWC team is working diligently in your best interest, always ready to hear from you, answer your questions, and assist in any way they can.

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