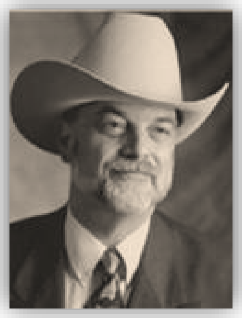

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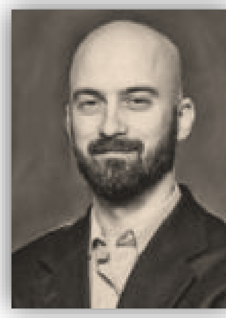

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TPWC Market and Economic Update

The Markets

The S&P 500 Stock Index once more put on its contrarian hat (which looks amazingly like a bull's horns) and, defying the deluge of negative commentary and worrisome economic news, crept another 8/10 of a percent higher for the week ending on the 14th of April to close at 4137.64. This week's gain leaves it 15.5% higher than it was in mid-October of last year, up 7.77% year to date, about 85% higher than it was three years ago, but still 13.67% lower than it was at its record high in January of 2022. Our other followed index, the CRSP U.S. Mid Cap Value Index rose 0.94% for the week to 2312.88, leaving it still nearly 11% below its 2022 peak but over 10% higher than it was last October and about 50% higher than it was three years ago.

The benchmark 10-year U.S. Treasury note yield rose from last week's 3.39% to 3.52%. Since the market price of a bond falls as the yield rises, that was anything but good news for bond holders, but the rising rate suggests that the collective wisdom of the bond market participants sees a recession as less and less likely. Still, the yield curve remains decidedly inverted with the highest Treasury security yields from three months to six months all above 5% (annualized). While the pundits are continuing to forecast a "pivot" by the Federal Reserve to lower short-term rates as the much-forecast recession arrives, instead, so far this year we have seen longer-term rates gradually rising. West Texas Intermediate crude oil (WTI) prices climbed 2.8% to $82.70 per barrel, echoing the bond market assessment that economic demand was not likely to slow in the near future. Oil prices have now risen almost 25% in the last month.

The Economy

As they have been for the past several months, all eyes were on the official inflation number released each month by the Labor Department's Bureau of Labor Statistics (BLS). Again, as usual, there is more than one way to view the data, depending on what a person wants to see. The "headline" number in the report was that over the past 12 months, the all-items index increased 5%. That number is unacceptably high and as the primary responsibility of the Federal Reserve Board of Governors is to maintain the stability and buying power of the dollar, an immediate fear of the Fed overreacting and plunging the U.S. economy into recession comes to mind. But wait! Reading the top line in the report tells a different story. "The Consumer Price Index for All Urban Consumers (CPI-U) rose 0.1% in March on a seasonally adjusted basis, after increasing 0.4% in February…" In short, inflation in the United States is currently running at 1.2%. More, that 5% number is the lowest 12-month report we have had since May 2021. For perspective, the 12-month CPI-U was above 9% just under a year ago. Inflation, by any measure is and has been coming down. Even the food index, one of the more volatile elements in the CPI, was unchanged in March. Inflation is still there, primarily in the housing (shelter) sections of the CPI report, but the Fed's efforts are having a distinct effect.

Adding to the evidence of a moderating economy was the report from the Labor Department that employers added 236,000 workers last month, a strong gain, but the smallest we have seen in more than two years. At the same time, wages rose 4.2% from one year ago, a still very strong number but, like the jobs report, the smallest annual gain we have seen since mid-2021. The Census Bureau chimed in as well with reinforcing news. Advance estimates of U.S. retail and food service sales for March 2023, seasonally adjusted, were down 1% in March from February, but were up 5.4% from one year ago. The overall picture that emerged from the reports is that of an economy still growing but at a far more sustainable rate than we saw at the beginning of the year.

Then came the icing on the cake. Retail sales in their various forms are what drive our economy, but the prices we find there are largely driven by something called the "Producer Price Index for Final Demand" (PPI). The PPI for March declined 0.5%. Import prices and the PPI tend to lead the inflation numbers by one or two months. It is just possible we have turned the corner.

Finally, some perspective is in order here. According to two articles in *The Economist* this week, in 1990, America accounted for 40% of the world GDP. Today we produce 58% (China produces 18%). In that time, we have seen the number of U.S. workers grow by 1/3 compared with a 10% growth in Western Europe and Japan. The average American wage in our poorest state, Mississippi, exceeds that of the average in France. $100 invested in an index of the biggest rich-world stocks outside the United States in 1990 would be worth about $510 today, while $100 invested in the stocks that make up the S&P 500 Stock Index in the U.S. would be worth about $2,300 today. Along the way, according to the Conference Board, our productivity has increased 67% compared with 55% in Europe and 51% in Japan. We seem to enjoy beating up on ourselves but let us not forget we live in the most prosperous, successful, and powerful nation in the world today and in its entire history.

Until next week, know that we remain at your service, dedicated to providing unbiased, fiduciary, portfolio management, investment and financial advice, and personal, professional service to you, our clients and sole employers.

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