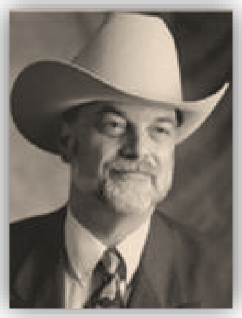

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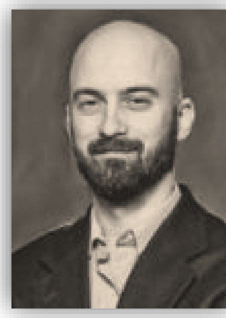

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TPWC Market and Economic Update

The Markets

It was another week of dire news in the headlines but the stock market, at least as represented by the S&P 500 Stock Index (SPX) seemed to have a differing view. The Index ended the week at 4133.52, down 1/10 of one percent. That left it up 7.66% this year, 15.4% higher than it was in October, and almost 85% higher than it was three years ago, but still down about 14% from its high point in January 2022. During the week, the SPX rose as high as 4166 and fell as low as 4115 but despite sudden moves down most mornings, had largely recovered by the end of each day. Earnings from the first quarter are coming in and, in those earnings, and the accompanying forecasts by the reporting companies, traders are trying to read the tea leaves to forecast where things are going. Yes, earnings forecasts by Wall Street analysts are down both for the first quarter and for the second, but so far, with nearly 10% of the SPX companies having reported, 82% of the reporting companies are substantially beating the estimates. Our other market indicator, the CRSP Mid-Cap Value Index, ended the week at 2326.42, up 0.59%. It is still down about half a percent this year but is up about 50% from three years ago.

The benchmark 10-year U.S. Treasury note yield bounced around wildly during the week, much like the stock market, but ended, again like stocks, pretty much where it started, yielding 3.57% versus last week's 3.52%. The Treasury yield curve continued in its firmly inverted position with 2, 3, and 6 month yields above 5% (annualized). Voting members of the Federal Reserve Board seem to be in something like a consensus of "one and done", meaning that one more 0.25% increase is in the works, but barring new data that conflicts with what they are seeing now, that will set the stage for a pause. That would put the rates right where Chairman Powell suggested 9 months ago, they would be. In a bit of a surprise to many observers, the price of West Texas Intermediate crude oil (WTI) fell almost 6% to $77.87. Despite the announcement that OPEC would be cutting oil production, the U.S. Energy Information Administration released a report that global oil production is likely to increase by 1.5 million barrels per day this year.

The Economy

The economic headlines were, as usual, filled with worrying announcements. The speculation that we are headed for a recession somehow makes it into every story, no matter what the underlying facts seem to indicate. The reality is that under the headline announcing that jobless claims rose for the week, buried in the last paragraphs, was the notation that unemployment insurance claims and the unemployment rate are still near or at a record low. Inflation, of course, is the hot topic, with pundits howling about 5% inflation over the past year. As we mentioned last week, very little is said about the fact that about nine months ago, the one-year trailing inflation rate was 9%, and even less is said or written about the current 0.1% month over month inflation rate, which equates to 1.2% annualized. Even less is written about the section of the Labor Department's Wages and Inflation report that noted the wages for the lowest earning quarter of workers has risen 7% in the last 12 months. The economic news media is focused on bad news because, perversely, that is apparently what we want to see and hear.

There are more than one historically reliable predictors of recessions and one of the better ones is the price of copper. For example, copper is needed for just about everything we make or do, and the process of increasing supply, or for that matter, decreasing the supply, is very slow and very expensive, so rises and falls in copper prices are almost completely based on contracted orders over the next six months to a year. When copper purchasers sense rising demand coming down the road, they contract to buy more copper and the price either goes up or stays up. When those companies that supply copper to the building, transportation, electronics, and other core industries see less demand, they fail to renew contracts and the price goes down. The futures cost of copper has fallen substantially before every recession since WWII. It sometimes sends false recession signals, but to date, it has never failed to drop prior to a recession. Copper started the year at $3.77 per pound and is now just below $4.00. Yes, copper was at about $4.50 a year ago, then slumped to $3.23 in July, but has been rising or holding its own ever since.

We believe the source of the confusion is that we are seeing something we have not seen in over 40 years. In late 2020 and through 2021 our economy was in overdrive, running faster than was safe or reasonable, as we recovered from the pandemic. Now we are seeing the economic growth rate slowing as it settles back to a sustainable level. Over the last several decades, a slowing growth rate was a good sign that a recession was soon to arrive. Today, it may just be that we are returning to a healthy balance. The Fed's objective was to slow the growth rate to a sustainable level, and it looks more and more like it is working. Only time will tell, but there are as many signals that we are about to see faster growth later this year as there are indications that a recession is in the cards.

Until next week we remain at our posts, doing our duty to God, country, our clients, and the fiduciary way!

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