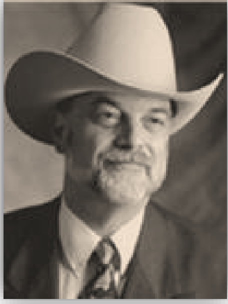

THE PERSONAL WEALTH COACH®

An SEC Registered Investment Adviser

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TPWC Market and Economic Update

The Markets

It did it again. In another week filled with stories of possible bank failures, predictions of a soon to be arriving recession, and tales of corporate earnings that were sure to fall, the S&P 500 Stock Index (SPX) our favorite, if flawed, primary market indicator, crept upward 0.87% to close at 4169.48. That wee gain left the Index up 8.59% so far this year, up 0.91% from a year ago, 46% higher than it was three years ago, but still down over 16% from its record high in January of 2022. Our other favorite index, the CRSP US Mid Cap Value Index, rose 0.21% for the week to close at 2331.25 but is still down 0.20% this year, and about 10% from its high in early 2022.

The yield on the benchmark 10-year U.S. Treasury note slipped from last week's 3.57% to 3.44% while the short-term Treasury bills at 2, 3, 4 and 6 months remained comfortably above 5% (annualized). We remain clearly in a world turned upside down with interest rates on ultra short-term bills yielding far more than the traditionally much higher yielding twenty and thirty-year Treasury bonds. West Texas Intermediate crude oil (WTI) prices continued to slip, ending the U.S. business week at $76.68 per barrel.

The Economy

The top economics story for the week was clearly the announcement by the Commerce Department's Bureau of Economic Analysis (BEA), one of our favorite government agencies, that their "advance" estimate of our Gross Domestic Product growth rate for the first quarter was 1.1%. That is quite a drop from the real GDP growth rate in the fourth quarter of 2022 of 2.6%. Note here that all those rates are annualized, so they mean how fast the U.S. economy would grow if it remained at that rate for a full year. As usual, the real news was deeper in the report. There were elements in the economy that shrunk, after subtracting inflation, and others that were growing well.

The primary negative was in inventory spending, which should not be a surprise. During the pandemic anyone who visited a store noticed that there were empty shelves. In the last two or three quarters of last year, retailers and wholesalers were stocking up on inventory, which adds to the GDP. The other big negative was new single family home construction and non-residential fixed investment, again not a surprise as higher interest rates have made mortgages and bank loans more expensive. The plusses in the GDP report, keeping the numbers positive, were just as significant. The primary plus was an increase in consumer spending, on both goods and services. On the goods side, the big one was surprisingly, motor vehicles and parts. Apparently, the pent-up demand for cars and light trucks dating from when the new car lots were empty is still with us. One of the surprises too was that investment in commercial buildings was up substantially. Another somewhat unexpected positive was a significant increase in exports. What does that all mean? Well, we like to see commercial investment in structures (buildings) because it means that companies are anticipating higher demand a year or more from now. The rise in exports, considering the high world price of the dollar, was another pleasant surprise. Apparently, the world still believes "Made in the USA" is a big positive.

If we back off and look at the current dollar GDP, the growth rate was 5.1%. Why, then, was the reported GDP only 1.1%. Oddly, the net, seasonally adjusted GDP is for the quarter, but annual inflation is subtracted from the number so, it comes out lower than common sense would have it. Since the price index for gross domestic purchases (PCE)

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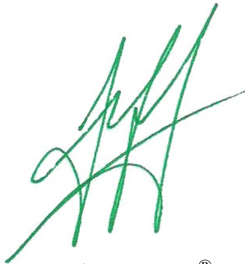
rose 4.9% from a year ago, the net number for the quarter came out to 1.1%. Here is where the geeky economists get excited. Real disposable personal income, after subtracting debt payments, living expenses, and inflation, increased 8% in the first quarter! That is big. At the same time the personal savings rate rose to 4.8% compared with 4% in the fourth quarter of last year.

The bottom line to the GDP first estimate from the BEA is that the American consumer, the primary drivers of our economy, has more surplus income this year than last, and both raised their spending and raised their saving rates. The overall economic growth rate slowed, but that is exactly what the Federal Reserve wanted to see happen. Higher interest rates encouraged more savings too. The icing on the cake was that companies are building more buildings which typically take six months to a year to begin producing profits. Yes, the economy may slow to "below trend" growth in the next couple of quarters, but once again we have to say that this doesn't look like an economy that is sliding into some kind of severe recession. Unemployment remains at or near record lows, prices are stabilizing, savings are up, and the consumer is not overburdened by debt. As before, the one big threat we see is the possibility that Congress will force the Treasury to suddenly stop paying its legally mandated debts sometime in the next few months. Other than that, what we are seeing is a very reasonable reduction in the growth rate that will allow the U.S. economy to cool off and stabilize.

Until next week, rest assured that we are hard at work analyzing, researching, and always seeking better ways to serve our clients, and sole employers in our never-ending battle for truth, justice, and the fiduciary way!



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