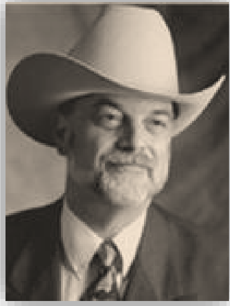

# THE PERSONAL WEALTH COACH®


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## TPWC Market and Economic Update

### The Markets

It was another week of high drama as regional bank stocks continued to take hits from the semi-panic that has rippled out from the recent bank failures and more specifically from the collapse of First Republic Bank. Once more, reading the daily headlines, one would assume that a major recession and equally dramatic market crash must be the next thing up on the news. Instead, the S&P 500 Index (SPX) ended the week down 8/10 of one percent, closing at 4136.25. It is now up 7.73% this year, about 15.5% ahead of where it was last October, and about 46% above where it was three years ago. Yes, it also remains about 13.7% below its high point in January 2022, so it is up to you and your time horizon to determine whether the market is up or down. Our other followed market indicator, the CRSP US Mid Cap Value Index was far more affected by the regional banks, which are, after all, mid-cap value stocks, and was down 1.43% for the week, closing at 2297.81, leaving it down 1.79% this year and down 11.53% from its high at the beginning of 2022.

The yield on the 10-year benchmark U.S. Treasury note ended the week exactly where it was at this time last week, 3.44%, almost as if nothing had happened all week. For better or worse the entire shortest-term Treasury yields all remain well above 5% with the 1-month leading the yield race, paying an annualized 5.59%, keeping the Treasury yield curve more inverted than we have seen in our half-century of watching such things. West Texas Intermediate crude oil (WTI) continued its slow slippage in price dropping to $71.37 per barrel.

### The Economy

There were three big announcements on the economic front this week. First, the slow-motion train wreck as First Republic Bank became the second-largest bank failure in U.S. history, exceeded only by the collapse of Washington Mutual in 2008 finally ended. Its sins were like those of the recently failed Silicon Valley Bank. It made a lot of low interest loans, betting on the low interest rate environment lasting a long time or quickly returning and its business was concentrated in the wealthy San Francisco Bay area with most of its deposits exceeding insured levels. It focused on buying longer term Treasuries and pocketing the difference between those rates and the low rates it was paying depositors. Toward the end, the interest it had to pay to keep depositors from leaving exceeded the interest it was earning, and the handwriting was on the wall. Once more though, depositors were made whole whether they were under the $250,000 per account FDIC limit or not.

Then, the Federal Reserve Board had its regular meeting and solemnly announced that short-term, interbank lending rates were being pushed up another quarter point to 5.25%, right where most of the voting members said they were likely to go in speeches many months ago. Perhaps more importantly, Chairman Powell in his post-meeting press conference suggested that this might be the end of the rate increases that have taken short-term rates up further and faster than any of us have seen in forty years. Given that cracks are showing up in various places across the economy and having serious impacts on institutions like First Republic was clearly on the Chairman's mind.

Bank failures and rising interest rates historically have been harbingers of impending recessions. Add to that the highly inverted yield curve and eleven months of falling long-term economic indicators and the harbingers of recession all lined up neatly, clearly showing that we were about to fall off the cliff. Then came Friday's Labor Department's report


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on unemployment rates. The first line was a shocker. "Total nonfarm payroll employment rose by 253,000 in April…" The unemployment rate also fell to another record low of 3.4%. Moreover, the number of "job losers" decreased by 307,000. In short, the prime driver of economic growth in the United States, employment, rose faster than just about anybody expected. Recessions are led by rising unemployment. Economic recoveries and booms are led by falling unemployment. The most thoroughly forecast and expected recession in our memory, and perhaps in history, keeps on looking like an economic boom. Even in manufacturing, where there has been a clear slowing of activity, employment was rising, suggesting that manufacturing companies were seeing rising orders coming down the road.

There is no question that we are in strange economic times. The oddness extends back at least three years. For those who have forgotten, the pandemic recession in 2020 was not preceded by the normal warning signs and now we have another case where the traditional indicators seem to have missed the mark. The bottom line is rather simple. We had a pandemic. Pandemics are not caused by economic trends and the surges and falls that follow them are not either.

The U.S. economy continues to plow on in a manner reminiscent to us of Mark Twain's famous quote, "The rumors of my death are greatly exaggerated."

Until next week, take comfort in the fact that they and their loyal and dedicated staff continue to work hard and long at trying to understand the complexities of how to be invested for the long-term, whittle down long-term risk, and provide the best possible service and fiduciary advice and portfolio management to their clients and sole employers, you!

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