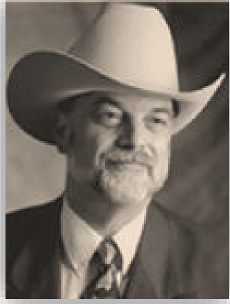

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TPWC Market and Economic Update

The Markets

For yet another week, the drumbeat of the economic news was that things are *bad*, really *bad,* and almost certainly going to get worse. But also once again, the people who buy and sell stocks and equity mutual funds, invest in their retirement plans, and are the core of what makes the system we rely upon to work just kept on keeping on. The S&P 500 Stock Index (SPX) did indeed decline, but only by less than 3/10 of one percent as it closed out the week at 4124.08. It is now down 14% from last year's high point in early January, but at the same time up 7.36% this year, over 15% from last October, and is over 44% higher than it was three years ago. The CRSP US Mid Cap Value Index was down about 1.5%, closing at 2262.07, mainly because that is where the regional bank stocks tend to be, and down 12.87% from its top last year.

The yield on the benchmark 10-year U.S. Treasury note rose just a bit to end the week at 3.46% while ultra-short-term Treasury bills soared above 5% with the one-month bill rising to 5.79% on fears that the U.S. may, for the first time in its nearly 250-year history, default on its debts in the next month. West Texas Intermediate crude oil fell to $70.09, pretty much in the middle of its trading range this year.

The Economy

While there was rejoicing about the continuing low level of month-to-month inflation and its potential to stop the Fed's interest rate rises, another issue now has the lead in U.S. economic news. Finance and market leaders are both unanimous and loudly proclaiming that a failure to raise the federal debt ceiling in the next few weeks would send the U.S. and world economies into a possibly severe recession.

First to the news from the Bureau of Labor Statistics at the Labor Department. The headline Consumer Price Index (CPI) one-year number fell to 4.9%. While that was a high number it is also the first time the one-year CPI has fallen below 5% in eight months. The better news was that the Producer Price Index (PPI) for final demand, a proxy for wholesale prices, rose only 0.2% in April following a drop of 0.4% in March. What we have seen over the years is that the PPI tends to indicate what the CPI will look like a few months later. At the same time import prices, another number that tends to lead the CPI by several months are now 4.8% lower than they were a year ago. For the month import prices were up, but the areas generating the monthly rise were among the most volatile and it was the first significant rise in import prices in over a year.

Another bit of good news that was actually good news arrived as the Census Bureau reported that orders, production, and delivery of construction equipment, trucks, building supplies, and industrial software are rising at a solid rate despite the slowdown in other areas of manufacturing. Those items are historically the leaders when the economy is in the doldrums and is about to accelerate.

In one of those "bad news is good news" reports, the Labor Depart reported that new applications for unemployment insurance for the week ending on May 6 rose 22,000 to 264,000, the highest number since October of 2021, while the number of people with ongoing claims rose by 12,000 to 1.81 million. Members of the Federal Reserve Board have

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consistently stated that they were watching labor statistics for indicators showing a cooling in the jobs market to tell them whether they had raised rates far enough. This set of reports may just fit the bill.

There remains one dark cloud on the economic horizon. Janet Yellen, the Secretary of the Treasury warned that because of lower-than-expected tax receipts last month, the Treasury will begin to default on governmental debt early in June unless the debt ceiling is raised. The Congressional Budget Office confirmed her estimate. Major financial institutions announced they were preparing to go into emergency mode if the ceiling is not raised before the Treasury stops paying its creditors. Moody's Economics, one of the most reliable of forecasters, warned that failure to pay legitimate government debt for even a short period of a week or less could create an unprecedented crisis and a recession that could be severe. Since 1789, the U.S. government has never failed to pay its creditors on time. Any failure to do so would result in permanent damage that could easily spiral out of control, and, at the same time, dramatically increase the deficit and likely trigger a serious economic downturn as the Treasury would be forced to pay higher interest rates and the recession triggered by that event would lower tax receipts.

Until next week, be assured that we are here for you, always willing to answer your questions, hear what you have to say, and do our fiduciary best to provide you with independent, unbiased investment advice and portfolio management.

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