THE PERSONAL WEALTH COACH®

An SEC Registered Investment Adviser

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TPWC Market and Economic Update

The Markets

The S&P 500 Stock Index once more moved in a manner the week's headlines suggested it should not as it rose 1.65% to finish the week at 4191.98, its highest weekly close this year. It is now up 9.18% since the year began, over 17% since its low last October, 7.45% since this time last year, and nearly 40% since this time three years ago. At the same time, it remains 12.54% lower than its record high point in January 2022. Observers gave the credit for the gain to hope that the debt ceiling will be raised. The other stock index we follow, the CRSP US Mid Cap Value Index, rose 0.16% to 2266.71, leaving it down 3.1% this year, and 12.72% from its high last year.

The yield on the benchmark 10-year US Treasury note climbed to 3.70% from last week's 3.39%, leaving the yield up more than 9% this year but with the yield curve still strikingly inverted. Once more the one-month T-bill held the top rate, yielding an annualized 5.62%. All the Treasury issues out to one year also remained above 5% with the 30-year T-bond at 3.95%. While not so dramatic, the longer-term Treasury maturities yields have gradually been moving upward, suggesting that the bond market collectively is of the opinion that interest rates are going to be higher over the long-term. West Texas Intermediate crude oil (WTI) rose about 2.3% to finish the week at $71.70 remaining in the trading range it has occupied for most of the last year.

The Economy

The U.S. Economy continued its counterintuitive trek, ignoring the pundits and soothsayers whose reading of economic tea leaves has had them warning of both a major recession that should have arrived by now and with it a Federal Reserve "pivot" with sharply lower interest rates. During the week initial claims for unemployment insurance, widely seen as a proxy for lay-offs, slipped back into the pattern we have seen for the past six to nine months falling to 242,000, about where the average has been. Monthly retail sales rose for the second time in the last six months as consumer spending continued its shift from services to goods.

U.S. industrial production rose a surprising 0.5% in April despite a decrease in inventories. Normally, as businesses see excess inventory, we also see a decline in industrial production and manufacturing, but April's reports indicated that domestic manufacturing grew a full 1% after slipping 0.8% in March. The economy's maximum sustainable speed is measured in something economists call capacity utilization (Cap-U), which typically stalls at about 80% as weak links and bottlenecks have historically kept Cap-U below that number. In April Cap-U rose from 79.4 to 79.7, suggesting that goods manufacturing is running about as hot as it can get. For reference, last fall when the economy was clearly over speeding, Cap-U was at 80.6.

U.S. single family residences prices fell the most year-over-year in 11 years as April's prices came in 3.4% lower than at this time last year. It is becoming clear that higher mortgage interest rates are having an effect. The backside to that statistic though, like so much we are seeing in the economy now, went the other way as the NAHB Housing Market Index, a measure of homebuilders' sentiment, rose to 50 on a scale where that is the dividing line between growth and contraction. Single family building permits in April rose 3.1% as housing starts rose 1.6%, despite another increase in mortgage rates. Increased and increasing interest and mortgage rates are having an effect, but it is minor when compared with what was expected.

The wild card regarding which way the economy and stock market will go this year remains the debt limit. There continues to be universal agreement among business leaders and economists that a failure to raise the debt ceiling, resulting in the United States of America defaulting on its debts for the first time in its history, would very likely result in a severe recession and potentially a bear market in stocks. The Treasury announced that on June 1, outflows will be $75 billion greater than inflows, with another $22 billion hit coming on June 2, equating to more than the $92 billion the Treasury reported it had available as of May 17. If the Treasury doesn't run out of funds before June 5, it likely could make it until July, according to the Bipartisan Policy Center.

The bottom line remains much as it has been. Despite an inverted yield curve and negative leading economic indicators, the underlying U.S. economy appears to be on solid ground and growing at a sustainable rate. Were it not for the threat of a federal default on what it owes others, the route ahead looks far more like recovery and growth than like a pending recession.

Until next week, we remain focused and hard at work building and watching your investment portfolios to fit your unique needs, researching ways to better invest, and doing our best to provide unbiased, fiduciary advice and service to you, our clients, and sole employers.

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