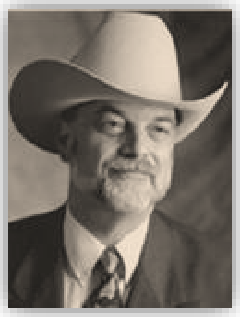

THE PERSONAL WEALTH COACH®

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May 26, 2023

TPWC Market and Economic Update

The Markets

Once more the week was full of potentially market moving news and once more the broad stock market treated it all as a non-event. The S&P 500 Stock Index (SPX) rose a whopping 0.32% for the week, closing at 4205.45 as all eyes and ears were focused on the potential for the U.S. Government to default on its sovereign debt for the first time in its history. At the same time the NASDAQ rose 2.51% the Dow Jones Industrial Average fell 1%, and the CRSP US Mid-Cap Value Index fell 1.59% to 2230.69. As we normally do, putting that all in perspective is important. The SPX is up 9.53% this year, and over 17% higher than it was last October. It remains about 12% lower than it was at the beginning of last year but has risen about 38% over the last three years for an average annual rate of return of 11.25%. These are strange times and uncertainty abounds.

Despite holding its own, the short positions in which investors in essence make a bet the stock market will decline substantially, are at near record levels. Historically, record levels of "short interest" herald a bull market to come as those who have sold borrowed stock they did not own will have to buy that stock back at some point. When the near record short interest is combined with the near record levels of cash that has been withdrawn from the market but is on hold waiting for the right moment to buy back in, the stage is set for a sharp and extensive rally in stocks. Only time will tell, but for contrarians like us things look good.

The yield on the benchmark 10-year, U.S. Treasury note crept upward to 3.8% from last week's 3.7%. Once more, the highest yields were in the shortest-term Treasury securities with the 1 month note paying an annualized rate of 6.02%, dwarfing the 3.96% yield on the 30-year bond. The high short-term interest rates appear to have been generated by the possibility that holders of Treasury securities maturing in the next month or so may not be paid interest or their principal. West Texas Intermediate crude oil (WTI) rose to $72.80 but remained well inside its trading range for the last couple of quarters.

The Economy

The focus of attention for the week was on the potential train wreck the markets and the economy would face if the U.S. House of Representatives fails to raise the debt limit, or if it passes a bill that is not acceptable to the Senate, causing the U.S. Government to default on its debts for the first time in its history. The Speaker of the House reported there was progress in the talks he was having with the White House, leading to some optimism on Friday, but the very real possibility of a default remained with just a few days left before the Treasury runs out of legal ability to pay the government's creditors and the House of Representatives in recess.

Meanwhile the economy of the United States continued to act far more like it is ready to expand further rather than enter a much-forecast recession. The Labor department revised several prior weeks' unemployment insurance claims downward, reversing what appeared to be an acceleration of unemployment last week. The four-week moving average is now only 230,000 and holding steady, suggesting that we are still creating more new jobs than the number of layoffs. The Bureau of Economic Analysis in the Commerce Department revised the first quarter GDP upward to 1.3% from the preliminary estimate of 1.1%. The same report revealed that real disposable income in the U.S. rose an astonishing

7.8% in the first quarter while the savings rate rose to 4.2% and U.S. consumer spending jumped 0.8% in the month of April, an annualized rate of 9%.

Separately S&P Global's composite purchasing managers' index (PMI) for the U.S. rose to 54.5 on a scale where numbers above 50 indicate growth and below 50, contraction. Purchasing managers indicated that excess inventory that has been slowing new wholesale orders has now returned to normal, which indicates orders will likely rise as the year progresses. Yet again, the real-world U.S. economy is showing every sign of being poised for accelerating growth rather than an imminent decline. At the same time as the U.S. numbers reported good growth in the last two quarters, the German economy officially is in a recession as first-quarter output declined 0.3% following a 0.5% contraction in the last quarter of 2022.

The bottom line remains that the U.S. economy is in great shape and continues to drive along at near its maximum capacity. Also again, the wild card is the possible default of the United States which has the potential to suddenly and dramatically reverse our economy and send us into recession.

Until next week, know that we are hard at work in an endless search for better investments and ways of providing our clients and sole employers with better fiduciary advice, service, and portfolio management.

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