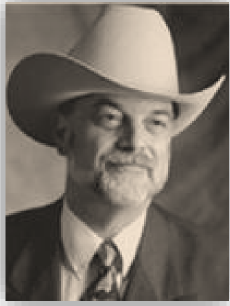

# THE PERSONAL WEALTH COACH®

An SEC Registered Investment Adviser

*Jeffrey W McClure* CFP® *Jacob A McClure* CIMA®

PO Box 1029 / 918 N. Main Street
Salado, TX 76571

(254) 947-1111
(800) 914-7526

*Serving Investors Since 1982*

www.tpwc.com

jeff@tpwc.com

jake@tpwc.com

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## TPWC Market and Economic Update

### The Markets

It was a good week to be invested in the stock market with the S&P 500 Stock Index (SPX) rising 1.83% as the debt ceiling sword of Damocles that had been hanging over the markets and the economy was removed. The SPX closed at 4282.37 leaving it 11.53% higher this year and 19.55% from last October's bottom. While there is no official measure for such things, the consensus among traders is reputed to be that a rise of 20% from a bottom point marks the end of a bear market and the beginning of the next bull market. If we accept that wisdom, we are only 0.45% away from a general acceptance of the bull market we have been writing about for months now. The Index is now 4.23% higher than it was at this time last year and almost 32% higher than it was three years ago but still over 10% lower than it was in January 2022. Not to be outdone by its older big brother, the CRSP US Mid-Cap Value index rose over 2% for the week closing at 2275.52.

The yield on the benchmark 10-year U.S. Treasury note declined just a bit to 3.69% but the Treasury yield curve remained severely inverted with the 90-day T-bill sporting a 5.5% annualized yield. West Texas Intermediate crude oil remained in a narrow trading range as the price per barrel fell just a percentage point to $71.95.

### The Economy

The passage by Congress of an increase in the U.S. debt ceiling and the resulting avoidance of a U.S. government default on its debt was the big news during the week, but in the best traditions of bull markets, the pundits were quick to fall back on their warnings that the economy was growing too fast and that growth would cause the Federal Reserve to raise short term interest rates too far and bring about a recession and a stock market crash. The evidence for such a pessimistic view was that the Labor Department released its Employment Situation Summary, reporting that nonfarm payrolls rose 339,000 in May, far more than what economists had forecast. In the same report, revisions were made to the April and May reports that added 93,000 more jobs. The bottom line is that there are roughly a half million more people gainfully employed in these United States than there were just three months ago. At the same time though, the household survey, contained in that same report, revealed that the unemployment rate rose to 3.7% from last week's near record low of 3.4%. The difference between the two surveys appears to be that a significant number of people who moved into self-employment during the pandemic are now moving back into the mainstream jobs market as they look for regular employment.

From the perspective of domestic economic growth that was great news as more employees earning wages means more goods and services will be bought with those extra earnings, but in this time where good news is commonly considered bad news, the pundits were wringing their hands at the prospect of the Fed continuing to raise rates and causing a recession. Add to that the other big report for the week which announced that employers had a seasonally adjusted 10.1 million unfilled job openings and the clear picture is that of a resilient economy that is brushing off the higher interest rates imposed by the Fed.

On the other side of the world, China's factory output contracted for the second straight month, and its purchasing managers index remained below 50, indicating that its manufacturing industry is contracting. They also appear to be experiencing a slowing in growth in the non-manufacturing side of the economy. That contrasts with the forecast

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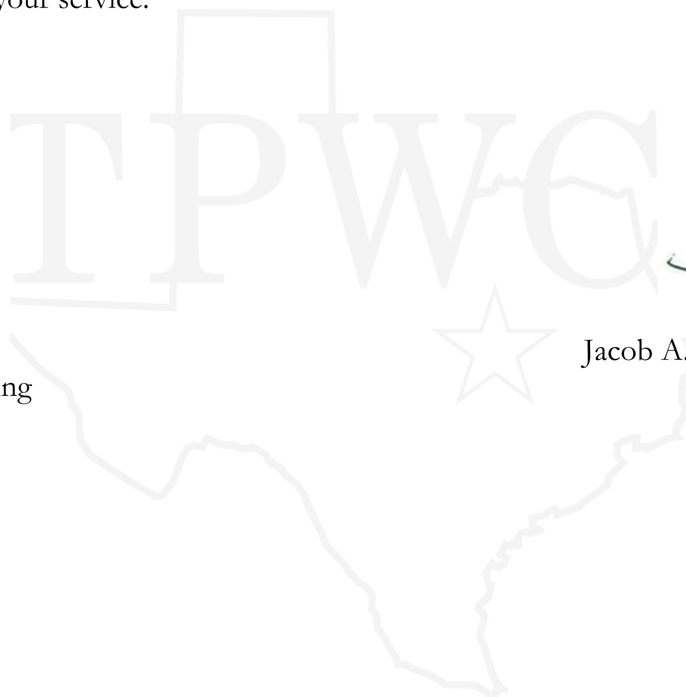
high level of growth that was generally expected following the halt of draconian quarantine enforcement. The issue appears to be that both American and European companies are reducing their purchases of Chinese goods. The Chinese economy is also facing a 20% unemployment rate among those between 16 and 24 years of age. It appears that in China job creation and business investment is not recovering as well as was assumed.

Ben Bernanke and Olivier Blanchard, two giants in the field of macroeconomics published a paper assessing what factors generated the sudden rise in recession here and in most of the rest of the world. They concluded that almost the entire inflation dynamic was attributable to energy and commodity shocks and supply chain snarl-ups. They further concluded that the stimulus checks issued in the United States were at most a tiny factor in inflation's return. They pointed out that in Europe, where no stimulus checks were issued, inflation rose more and is persisting longer than in the U.S.

Once more, with the threat of default behind us, we find ourselves in an amazingly healthy and robust economy that looks more like one poised on the cusp of further growth than one on the edge of slipping into recession.

Until next week we remain at your service.



Jeffrey W. McClure, CFP®
M.S. Personal Financial Planning

Jacob A. McClure, CIMA®

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