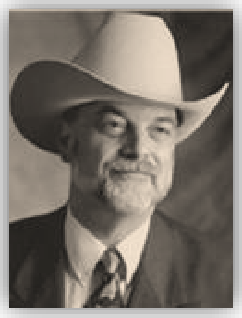

THE PERSONAL WEALTH COACH®

An SEC Registered Investment Adviser

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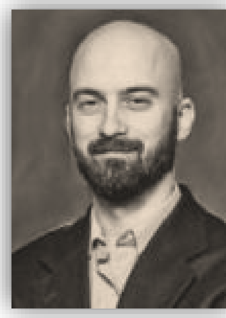

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TPWC Market and Economic Update

The Markets

Our preferred market surrogate, the S&P 500 Stock Index (SPX), seesawed up and down for the week that ended on June 9, and looked like it was going for the lofty 4,400 mark on Friday morning, but settled for a close at 4298.86 as the week ground to a close: a rise of a mere 0.39%. That small positive move, not unlike many others in weeks dominated by negative news, could easily obscure the fact that since last October 12, the SPX has now accumulated a gain of over 20%, and thus unofficially has returned to bull market territory. So far in 2023, the Index is up almost 12%, is 10.2% higher than it was a year ago, and is up an astounding 34% from where it was only three years ago. Still, it remains 10% lower than it was in the early days of 2022. As we have so often written, whether the market is up or down depends entirely on your time horizon. The CRSP US Mid Cap Value Index, the other index we like to watch, rose 1.67% for the week as it closed at 2313.41, leaving it also about 10% lower than its record high and down just over 1% so far this year.

The benchmark 10-year U.S. Treasury note yield changed very little as it ended the week at 3.75%, about where it ended 2022. The Treasury yield curve remained in its now familiar upside-down configuration with the one-year and shorter maturities all offering annualized yields well above 5% and the 2-year note yielding 4.59%. Despite Saudi Arabia announcing reductions in oil output, the price of West Texas Intermediate crude oil (WTI) slipped down to $70.37 per barrel as the European Union officially entered an economic recession. For reference, just under a year ago WTI was priced at over $100.

The Economy

A key indicator of where our economy is headed came out early this week as the ISM nonmanufacturing Purchasing Managers' Index for May came in at 50.3 on a scale where numbers above 50 indicate expansion and below 50, contraction. Inside the report was news that employment growth appears to have dropped slightly below the neutral point. That will be good news for the members of the Federal Reserve Board as they have repeatedly stated that a return of employment growth to a neutral stance is their goal in the fight against inflation. Reinforcing the PMI was the report from the labor department that weekly claims for unemployment insurance increased to 261,000 in the week that ended on June 3, a rise of 28,000. That rise put the new unemployment claims almost on a par with the new jobs' creation figure for May and suggests the Fed's goal may have been reached.

Germany and Ireland's first quarter GDPs were revised downward, and those revisions took the Eurozone GDP to a negative 0.4% for the first quarter of 2023 after falling 0.1% in the fourth quarter of 2022, creating, at least technically, a Eurozone recession. A significant contract has emerged between the Eurozone and U.S. economies. While the U.S. economy is now 5.4% larger than it was before the Covid-19 pandemic struck, the Eurozone economy has grown only 2.2%. At the same time, year over year inflation there has been 6.1% as of the end of May while in the U.S. it is at 4.7%. Whatever the complaints about what we did here in the U.S. it appears to have worked better than what was done there.

On Thursday, June 8, Moody's Analytics came out with a report suggesting that the remarkably stable retail prices we experienced in the decade prior to the pandemic are unlikely to return. Underlying those often-falling prices that combined with a few rising items to produce a net zero increase in the cost of living was a dramatic offshoring of manufacturing as cheap labor in China produced a price decline in many manufactured goods. That, combined with the petroleum fracking revolution, produced one of the most stable retail price environments the United States has experienced in a century or more. Evidence of the shift could be found in the Commerce Department report that Chinese imports only accounted for 15.4% of U.S. goods imports for the 12 months ended in April of this year, the smallest share since October 2006. In the years just before the pandemic, the U.S. purchased about 19% of its imported goods from China.

The bottom line for the week is that the U.S. economy continues to be robust and shows little sign of sliding into a recession, but its previously unsustainable growth rate as it emerged from the pandemic lockdown appears to be abating. Indicators suggest a stabilization and leveling off growth. Demand for employees is still high, and perhaps higher than is sustainable in the services sector, but overall, the consumer still has money to spend, unemployment is still low, and wages are good. While it is possible that the U.S. economy may, like the Eurozone, experience a technical recession, no major downturn appears to be in the works.

Until next week, we remain hard at work as we strive to always provide the very best service and fiduciary advice and portfolio management to you, our clients, and sole employers.

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