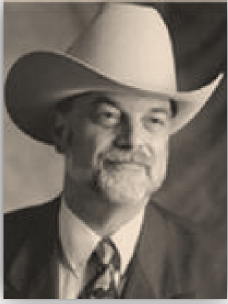
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TPWC Market and Economic Update

The Markets

It was a rough week for the markets. The S&P500 Stock Index (SPX) slipped 1.39% to close at 4348.33. Now that the debt ceiling crisis has been behind us for a while, fear of higher interest rates and a potential recession have risen to the surface and the "wall of worry" that bull markets climb once more took center stage. This week's decline leaves the SPX up 13.25% this year, 21.39% higher than it was last October, and about 43% higher than it was three years ago. It is also about 9% lower than it was in January 2022, at its record high. The CRSP US Mid-Cap Value Index joined in the slide, falling 2.28% in the last five days to 2309.73, leaving it down 1.28% this year and about 11% lower than it was in early 2022.

The benchmark 10-year U.S. Treasury note closed out the week yielding 3.74% with little change this year. The Treasury yield curve too was little changed with the 4-month T-Bill having the highest yield at an annualized rate of 5.44%. Oddly, the 30-year Treasury Bond yield fell a bit to 3.82%, leaving the curve with an amazingly consistent downward slope, the exact opposite of its normal shape. Oil joined in on the slippery slope with a barrel of West Texas Intermediate crude oil (WTI) sliding just over 3% to $69.41.
Because

The Economy

Fed Chairman Jerome Powell testified before Congress this week and repeated his stern warning that interest rates will remain higher, longer than most people expect. Despite that being the same line he has been using for months, apparently at least some traders on Wall Street finally heard that interest rates are up and likely to rise and that not very new news caused them to sell some stocks. Then, they seem to have become aware of the fact that imbedded inflation in the United Kingdom is unacceptably high at 8.7% as the Bank of England raised rates there by a half percent. As we have written before, across the Euro Zone, inflation stands at over 6% and both the UK and the Zone are now officially in a recession. The gloom from across the Atlantic raises that wall of worry on our side since our economies are rather linked. Adding more rocks to that wall of worry is the drip, drip, drip, of less-than-ideal economic data coming out of China. The Bank of China is lowering its one-year loan prime rate (LPR) as their economic growth rate has slowed to one of the lowest in years. While our economy is not based on exports like China or Germany, exports remain a significant part of how we keep Americans employed. We live and work in a very globalized economy and bad news in any major economy is likely to have some impact here at home.

Another couple of economic reports came out during the week that illustrate the contradictory issues in the economy. U.S. existing home prices posted their biggest year-over-year price decline since 2011 as they fell 3.1% in May, even as the volume of home sales dropped over 20% from one year ago. The biggest price decline was in Austin where the average house sale was 15% lower. At about the same time, the Census Bureau announced that new housing starts rose almost 22% in May!

The contradiction between a 20% drop in existing house sales and a 22% jump in new house construction starts is possibly the starkest evidence that we are not living in what most of us would consider to be normal economic times. Low existing mortgage rates are keeping people in their existing homes because a new mortgage would be far more

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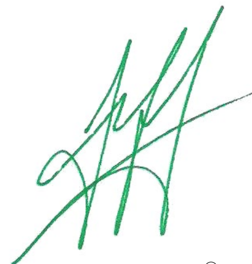
expensive. That is the reverse of the experience most of us have had over the past thirty years as falling interest rates tend to reward homeowners for selling their existing house and buying another. The glimmer of a silver lining is in the burst of new single-family home starts we are seeing. It has been argued that home building is the single largest element in the American economy. Some very respected economists have gone so far as to say that house building *is* the economy in the United States. It is worth noting though that new home prices are about 15% lower than they were a year ago.

In a more comprehensive reading on our economy, once more there is a contradiction. On Friday, S&P Global reported that the US Manufacturing Purchasing Managers Index fell to 46.3 this month on a scale where numbers below 50 indicate contraction and above 50, expansion. On the other, and much larger, service side of our economy though, the PMI was 53. In that same report, S&P Global estimates that the U.S. GDP is rising at about an annualized rate of 2% in the second quarter and the comprehensive PMI remains well above 50.

The bottom line is that our economy is continuing to send mixed signals, but across the board, evidence of a looming recession is missing. What we are seeing instead looks a lot more like growth and expansion, admittedly at a slower and probably more sustainable rate than we have seen in the past few years, but still expansion.

Until next week you may rest assured that the balding, bearded duo and their TPWC Team are hard at work building and maintaining investment portfolios individually designed on a fiduciary basis for you. We are also always ready to hear your voices, read your emails, and at your call to provide fiduciary investment advice. Remember they work solely for their clients and accept nothing of value from other sources.



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