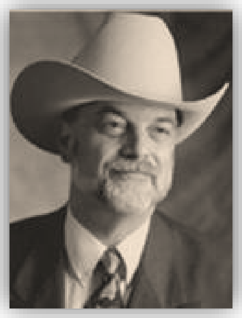

THE PERSONAL WEALTH COACH®

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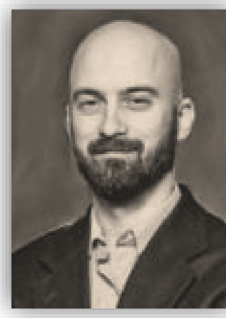

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June 30, 2023

TPWC Market and Economic Update

The Markets

Our dear old S&P 500 Stock Index (SPX), in its role as the primary indicator of the whole U.S. stock market, turned in a delightful week as it rose 2.35% to 4450.38. The SPX is now up almost 16% in just the first half of 2023 and is 24% higher than it was only last October. It is also almost 40% higher than it was three years ago but remains down about 7% from its record high in January of 2022. Not to be outdone by its larger, older sibling, the CRSP U.S. Mid-Cap Value index, our other market indicator, rose 3.54% for the week to 2391.52, and is now up 2.2% this year, and remains about 8% below its record set in 2022.

The benchmark U.S Treasury 10-year note yield climbed to 3.81%, near the high end of its trading range this year. The Treasury interest yield curve remained stubbornly inverted with the highest annualized yield coming from the 6-month Treasury bill at 5.47%. Both the Federal Reserve and European central bank heads continued to warn that rates will be higher, longer than most people are expecting. West Texas Intermediate crude oil (WTI) crept upward to $70.46, about twice its price two and a half years ago, but still far below the $120 per barrel price it got in June of 2022.

The Economy

The biggest news item in the U.S. economy for the last week of the first half of 2023 didn't make the headlines. One of our favorite government agencies, the Bureau of Economic Analysis (BEA), part of the Commerce Department, announced its third estimate of U.S. GDP growth in the first quarter of this year. Initially, the first estimate from the BEA was an anemic annualized rate of 1.3%. In their second estimate, it was raised to 1.7%. This week the BEA released what is generally considered their final reading on the first quarter's annualized U.S. GDP growth at 2%. That number is consistent with what is generally considered to be the maximum sustainable growth rate our economy can handle without overheating. Driving that new number was the news that consumer spending grew at a 4.2% annualized rate in the quarter. Moreover, spending on durable goods rose at an astonishing 16.3% annualized rate. That news came as S&P Global said Thursday that they are estimating the U.S. GDP grew at an annualized 1.7% in the second quarter. Then in a separate report, the BEA announced that consumer spending rose 0.1% in May after rising 0.6% in April rather than declining as many expected.

In another indicator of a strong, healthy economy, new unemployment insurance claims declined by 26,000 to a seasonally adjusted 239,000 as the second quarter drew to a close even as employers added 339,000 jobs in May. Even continuing unemployment claims declined by 19,000. Clearly, employers are still seeing business growing and are hiring to accommodate that growth. At the same time, according to the St. Louis Federal Reserve, U.S. household debt remains well below its 40-year average as a percent of disposable personal income.

All that good news about the health of the economy was tempered in the minds of economy watchers by the fear that such high employment and consumer spending would surely have created an increase in the inflation rate. Instead, the personal consumption expenditures price index (PCE) only rose 0.1% in May, down from the 0.4% rise in April. May's inflation rate, if annualized, was only 1.2%. The Federal Reserve watches a version of the

PCE, which does not include food, energy, shelter, and goods which only rose 0.2%, or at an annualized rate of 2.4%. That left the trailing one-year PEC the Fed is watching only 3.8% higher than at this time last year. Members of the Federal Reserve Board (the Fed) continued to suggest that two more 0.25% increases were likely to follow. It is becoming clear that the strength of the U.S. economy was dramatically underestimated by the many pundits who forecast we should be in a severe recession by now.

Unfortunately, the same cannot be said about either the European or the Chinese economies. In Europe, inflation was 6.1% in May and is expected to fall to 5.5% in June even as much of the Euro Zone was officially in a recession. China appears to not be having the inflation most countries have experienced but is seeing the slowest growth rate in decades at a forecasted 5% or so this year.

Once more, the underlying U.S. economy is demonstrating a level of vigor and health that is confounding the pundits. Despite abundant auguries forecasting our economy's decline, the most widely forecast recession in memory just refuses to appear.

Until next week, we solemnly swear (or affirm) that we will continue to do out duty to God and Country to fulfill our fiduciary duty to you, our clients, and sole employers. Take care over this long weekend to stay cool and avoid the many accidents that traditionally come with our Independence Day celebration.

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