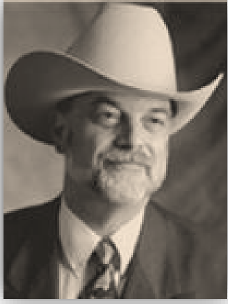

THE PERSONAL WEALTH COACH®

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TPWC Market and Economic Update

The Markets

Our dear old Standard and Poor's 500 Stock Index (SPX) was having a very mild week until Thursday, when ADP announced that they estimated a half million new jobs were filled last month, but employers would have hired 9.8 million more people if they could find qualified applicants. In other times that would cause stocks to rise, but in these times when economics seems to be upside down, employers hiring a net 500,000 new employees in a month frightened investors. The fear is that the surge in new hiring will cause the Federal Reserve to raise rates more than was expected and high rates could trigger the much forecast but, so far, invisible recession, forecast by so many. So, the SPX wound up declining 1.16% to 4398.95. That decline leaves the Index 14.57% higher than it was at the beginning of the year, about 23% higher than it was in mid-October, and up about 40% over the last three years. Of course, it is also 8.22% lower than it was at the end of 2021. The other index we follow, the CRSP U.S. Mid Cap Value Index had a far more moderate reaction and was only down 0.02% for the week to 2390.98, leaving it up about 2.2% this year and down about 8% from its peak in January 2022.

The fear of higher interest rates drove the yield on the 10-year U.S. Treasury note up to 4.06%, its highest yield since last October. The Treasury yield curve, as a result, became a little less inverted as the 1-year and shorter maturities all held at about the 5.5% mark, and the 30-year Treasury bond rose just a tad, closing out the week at 4.05%. If the trend we have seen for the last six months continues, the yield curve will return to its normal state where longer maturities have higher yields than do those that are shorter not because short term rates fall a lot but rather because the longer-term rates rise to higher than those amazingly high short-term rates. The week's data seem to support a more robust economy and that resulted in the price of West Texas Intermediate crude oil (WTI) to rise about 4.5% to $73.66.

The Economy

First the ADP jobs report came out on Thursday estimating a half million more Americans were gainfully employed in the last month. Vacancies declined just a bit, but again the employment situation in our country looks like the early part of a recovery or an economic boom, not an economy about to slip into recession. Then the Labor Department came out with their Employment Situation Summary on Friday morning. That official reading indicated that total non-farm employment increased by 209,000 in June and the unemployment rate dropped from last month's 3.7% to 3.6%. Normally in a rapidly rising interest rate environment, one of the first signs that a recession is on the horizon is a decrease in construction employment. That report instead indicated that 23,000 more people were working in construction during June than in the month before. Admittedly, that 209,000 number is lower than the 306,000 we saw in May, but it is still a lot higher than employment gains in the months prior to the pandemic. One bit of good news also appeared in the report as the number of employees quitting their jobs, primarily to move to higher pay in another job, has been falling for the past two months.

Adding to the numbers the Federal Reserve did not want to see was another item in the report. The average wage earned by an American worker rose 4.4% in the last year and 0.4% in June. The Fed wants to reduce inflation by reducing demand for goods and services. Inflation can be explained as something that happens when demand exceeds supply. So far this year about 1.2 million more people are working and earning wages than at the end of last year.

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They are also being paid about 4.4 percent more than they were last year. Those numbers mean that workers are now making a total of about $65 billion more now than as the year began, and they are spending a larger proportion of those wages than they were before the pandemic because their debt service is relatively low.

All that new money being earned and spent showed up in the car and light truck sales as they rose 13% so far this year. Dealers across the country reported that they are still seeing pent up demand being expressed by buyers who had previously been constrained by the pandemic and the chip shortage that stemmed from the quarantine in China. Rising rates are taking effect in at least one area. The Institute for Supply Management (ISM) reported that manufacturing activity in the United States declined to 46 on a scale where numbers below 50 indicate contraction and above 50, expansion.

Once more, the economy of the United States is roaring ahead as more people are employed and their average wage is rising at a rate that just about offsets inflation. In many ways that is excellent news, but those reports will very likely result in the Fed raising rates at least two more times, and in doing so, take short term rates from their current 5.25% to at least 5.75%. That is good news for savers, but scary for businesses with loans that must be renewed. The question is whether our economy can take another half percent rise in interest rates without stumbling. From our perspective and what we have seen so far, it looks like it can and will.

Until next week, know that we are on the job, always seeking better investments with lower costs and providing fiduciary investment advice and portfolio management for our clients and sole employers.

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