THE PERSONAL WEALTH COACH®

An SEC Registered Investment Adviser

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TPWC Market and Economic Update

The Markets

The dear old S&P 500 Stock Index (SPX) turned in an exceptional week. The consistency of the daily rise in market value was simply amazing. On Friday morning, July 14, it peaked at 4528 before slipping slowly back to end the week at 4505.42, up 2.42% for the week. That closing number left it just over double its value back in March of 2020, the bottom point in the pandemic bear market when it stood at 2237.40. It is now also about 26% higher than it was last October, and up 17.34% so far this year. Of course, we would be remiss to not also note that it is exactly 6% lower than its all-time high in January 2022, about 18 months ago. Our other market barometer, the CRSP US Mid Cap Value Index put in a reasonable week too, rising just under 2% for the week to 2438.38. It too is about 6% lower than its January 2022 record high but up 4.22% this year.

The benchmark 10-year U.S. Treasury note yield slid downward from last week's 4.06% to close at 3.83% as the bond market seemed to reach a consensus that the Federal Reserve would likely only add one more 0.25% rate increase rather than the two assumed last week. That did nothing to soften the inverted Treasury yield curve with the less-than-1-year annualized rates all clustering around 5.5%. Meanwhile the longer-term Treasuries continued their slow rise, suggesting that longer term rates will be higher than we have seen in more than a decade even after the Federal Reserve moves shorter term rates to a less restrictive level. That has the potential to cause more pain for those who hold longer term bonds as the market price of bonds and other loans falls as interest rates rise. West Texas Intermediate crude oil (WTI) climbed most of the week too before settling back a bit on Friday. A barrel of WTI is now priced at $75.26, pretty much in the middle of the trading range we have seen all this year, but well below the $120 prices we saw two years ago.

The Economy

The equivalent of an 800-pound gorilla made its presence known in the economy and the market this week as the Labor Department released its June Consumer Price Index (CPI) Indicators. The headline "All Items" figure for the last 12 months surprised more than a few people as it came in at 3.0%, one third the increase we saw at this time last year. Inside the report was less pleasant news showing that food has gone up 5.7% in the last year while gasoline has fallen about 27%. Significantly, if we include everything except the imputed price of shelter, the hypothetical rental value of people's homes that they own, the one-year inflation rate drops to only 0.7%.

The significance of that set of numbers is hard to overstate. If next month's official rate of inflation remains that low, it will suggest that the Federal Reserve has largely won its war against inflation. Perhaps more significantly, it has done so without creating anything that even looks vaguely like a recession. Even the more hawkish members of the Federal Reserve Board acknowledged that if the declining inflation rates we have seen so far this year persist, then only one more rate increase is likely. Currently, the Fed has set the overnight annualized bank to bank loan rate at between 5% and 5.25%. One more rise will take it to the 5.25% to 5.5% range: good news for savers, but less so for those seeking or paying back floating interest rate loans.

In another interesting interest rate bit of news, JP Morgan reported that its consumer credit card interest income was up 16% from a year ago. As we have noticed repeatedly over the years, even as consumers tell poll surveys that they are pessimistic about the future, they are returning to spending via high-interest credit cards. That is another typical behavior as we emerge from a recession, and not an indicator that a recession is at hand.

The U.S. economy continues to send conflicting signals. Manufacturing leading indicators have fallen to levels that have indicated recession at hand or soon to come with only three exceptions since World War II. At the same time factory construction is hitting records and manufacturers are still hiring like there is a boom ahead. The divide may be between "hard" and "soft" data. Most of the leading indicators are expressed as opinions and are negative. The hard data, such as factory construction and hiring rates are "hard" data, based on what manufacturing companies are doing rather than what their purchasing managers believe may be happening. Another, and even more extreme difference is to be found in the services side of our economy. All you need do to see what is happening there is attempt to go out to eat on a Saturday night. Americans are spending on services and that spending appears to be accelerating. As a side note, the reverse may be happening in China where signs of deflation are beginning to emerge as we are importing less from there and their consumers seem to be hunkering down and socking away more savings rather than increasing spending as we are doing.

Until next week, rest assured that we are diligently seeking better ways to manage and grow long-term portfolio values from the position of being full time committed fiduciaries, always seeking to serve the best interests of our clients first and foremost!

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