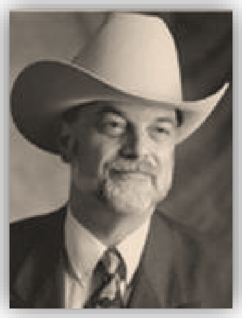

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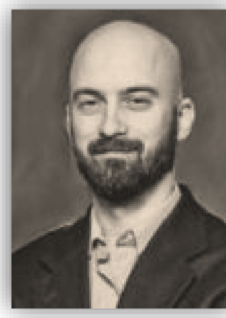

July 21, 2023

TPWC Market and Economic Update

The Markets

The S&P 500 Stock Index (SPX), representing the U.S. Stock Market, rose nicely on Monday and Tuesday of the week that ended on the 21st, but then seemed to think better of it as the week progressed and settled back down to close the week at 4536.34, up 0.69% for the week. Still, the SPX is now up about 103% from March of 2020, only about three and a third years ago, up about 27% from last October, up over 18% so far this year and is over 40% higher than it was three years ago. Still, we must acknowledge it also remains down about 5% from January of 2022 so all investors are not smiling. This was one of those weeks when the differences between the indexes was stark. The Dow Jones Industrial Average (DJIA) rose all week and was up 2.08%, closing at 35227.69 but is up only 6.28% this year. The other index that we do track, the CRSP US Mid Cap Value Index, rose 1.93% for the week, closing at 2485.39. That rise puts it ahead 6.23% this year and only down 4.31% from its record high in early 2022.

The benchmark ten-year U.S. Treasury note yield moved very little for the week, and closed at 3.84%, a move of only 1/100 of a percent since last week. Not much changed in the shorter end of the Treasury market as well. All Treasury maturities less than or equal to one year were yielding well above an annualized 5% and from there, the further out the maturity date, the lower the yields trended. West Texas Intermediate crude oil (WTI) continued its slow upward creep that it has exhibited over the past five weeks, ending the work week at $76.83, up about 2.26% for the week but has risen about 11% since mid-June. It is still about 20% lower than it was a year ago.

The Economy

There was an abundance of smaller bits and pieces of economic data released this week and they uniformly indicated that the U.S. economy is doing quite well. Retail sales, a measure of spending at stores, online, and in restaurants, rose a seasonally adjusted 0.2% in June after posting a 5% rise in May. Most of that rise was goods purchased online, at furniture stores, and electronics stores. Perhaps even more significant though were the anecdotal reports of retailers cutting prices in their stores. Both Tesla and Ford announced significant price cuts on their electric vehicles too. Those price reductions are noteworthy because they are signs that inflation may well be behind us, and we could be seeing the early stages of disinflation.

Moody's analytics is now forecasting that the second quarter U.S. Gross Domestic Product increase will come in at 2.2%. That would be consistent with the revised first quarter growth. They also reported that consumer inflation expectations in the U.S. are holding steady at about 2.3%. That may be another sign that the Federal Reserve is having success. As the Fed raised interest rates over the past year, there has been very little indication that the increases slowed businesses in a national rush to expand capabilities, and higher rates have certainly not slowed job creation or consumer spending. Since reducing building activity, business expansion, and consumer spending are the classic and obvious desired results of raising rates, what are the rate rises good for? The answer may be that the headlines and broadcast news reports of the Federal Reserve hiking interest rates higher and faster than any time in the past quarter century have impressed the U.S. consumer. That impression may be what is causing the reduction in inflation expectations. Because inflation has a history of following what consumers expect it to be, the Fed rates rises may only be affecting consumer attitudes. If so, then the Fed is getting the job done because reducing consumer inflation expectations is probably the single biggest factor in trying to control the inflation monster.

Recessions are either caused by something known as "the credit cycle" or some external event. Our last recession, back in 2020 was caused by an external event, the pandemic. Before that, the 2008-2009 recession was a classic interest rate cycle recession as were almost all the recessions we have seen in the past several decades. Yes, the proximate trigger in 2008 was the speculative real estate collapse, but interest rates had been rising for more than a year before the recession hit and the underlying cause was a failure of the credit markets. In the current economy, despite the dramatic rise in short term rates, longer-term rates have hardly budged and as JPMorgan Chase, Citigroup, and Wells Fargo reported earnings after the close last week, it was obvious that we are not seeing the interest rate issues that historically have led to a recession. Loan rates have not gone up as much as expected and the number of non-performing and write-off loans were well below what we saw before the pandemic. In essence, the banks' earnings reports were one more piece of evidence that we are not about to slip into a recession.

Meanwhile, the Chinese economy seem to be balanced on the edge of a very real downturn. In the United Kingdom, inflation has declined to 7.9% and in the Eurozone economies inflation has dropped to 5.5% from last fall's 10.6%, even as both economies are experiencing a recession. Bear that in mind if you are tempted to complain about our economy. Inflation was, and is far worse across the Atlantic than here, and rather than being in a recession, the U.S. economy is powering its way forward.

Until next week, we remain your faithful, fiduciary, servants, always striving to do a better job of providing unbiased, fiduciary advice, portfolio management, and the very highest level of personalized service!

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