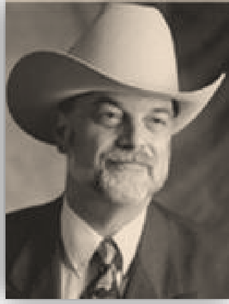

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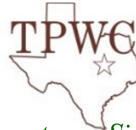

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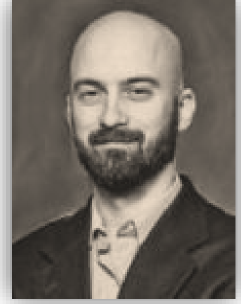

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July 28, 2023

TPWC Market and Economic Update

The Markets

As it usually does, the S&P 500 Stock Index (SPX), our choice for an indicator of what is going on day to day in the U.S. Stock Market, dodged and weaved through the week, but wound up at 4582.23, a gain of 1.01%. To bring that gain into perspective, the SPX is now up about 105% from its bear market bottom back in March of 2020, up about 28% from mid-October of last year, and up about 19% so far this year. It remains down 4.4% from its high in January 2022, but is up almost 40% in the last three years, an annualized return of 11.8% per year. The other market index we follow, the CRSP US Mid Cap Value Index, went the other way, dropping 0.58% for the week 2471.07, but is up 5.62% this year and 4.86% lower than its record high set in January of 2022.

The benchmark 10-year U.S. Treasury note yield closed out the week at 3.96%, a rise of around 3% for the week but still within the trading range it has maintained for over a year. The Treasury yield curve was largely unchanged other than a rise in less than one-year maturities to a range around 5.5% following the Fed's announcement of a short-term rate increase to that level as it remained severely inverted. West Texas Intermediate crude oil rose nearly 5% to $80.65, probably in reaction to the unexpectedly high GDP numbers, as traders began to price in a more robust U.S. economy with fuel demand likely to rise.

The Economy

This was one of those weeks when an avalanche of economic data comes pouring out of government agencies, and just about all of it was good. The biggest chunk of that data and the biggest surprise to many pundits was the Bureau of Economic Statistics first estimate of second quarter U.S. GDP at an annualized, inflation, and seasonally adjusted whopping 2.4%! As a reminder, during most of last year and even through the first half of this year, many commentators were warning that we were due and almost certain to see the beginning of a recession in that quarter. Some pundits went so far as to write as if a recession were already underway. Instead, we now see that the U.S. economy grew 2% in the first quarter and 2.4% in the second, clearly reflecting an acceleration in economic activity rather than a slowing. The leading element in that unanticipated growth appears to be business investment in durable goods and structures. Historically, businesses invest heavily in creating future capacity as we are coming out of a recession, not when we are about to enter one. The bottom line is that businesses, who have their eye on their customers' needs, see higher demand coming down the road.

That high GDP number could have been seen as bad news in that high business activity is often associated with rising inflation, but separately, the Labor Department's Bureau of labor Statistics, announced the employment cost index only increased 1% in the second quarter, the slowest advance since 2021. The BLS also announced that the Fed's preferred measure of what real inflation is doing, the personal consumption expenditures price index (PCE) rose only 3% in the last twelve months, also the lowest increase since 2021. The PCE also showed consumer spending, adjusted for inflation, rose in June the most we have seen since the beginning of this year.

The members of the Federal Reserve Board voted unanimously to raise short term interbank interest rates from 5.25% to 5.5% as expected. The good news was that their press release and Chairman Powell's press conference indicated they would wait on more data before deciding whether to raise rates another 0.25%. Then came the data indicating

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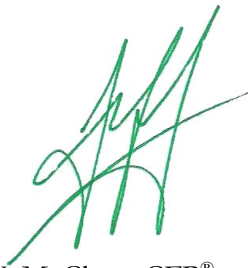
that inflation continues to moderate, but the economy appears to be accelerating. From the perspective of economic theory those two data points appear to be in contradiction. In Europe, for example, their economies are slowing and have entered a recession after the European Central Bank and the Bank of England raised rates, and inflation, while still much higher than here, also slowed. Here in the U.S. where we have been historically described as having "American exceptionalism" we, once more appear to be the exception to the rule.

Meanwhile, signs of slowing growth continue to appear in data coming out of China. A part of that is the shift going on as American companies have largely stopped investing in China and are diligently working at creating sources of materials and production elsewhere. There are plusses and minuses to that trend. As we de-couple from the Chinese economy, China has less to lose from the sanctions that would follow an invasion of Taiwan. More, as the Chinese economy slows, it removes another drawback that would come from war. This bears watching.

Until next week, we do solemnly swear to do our best to do our fiduciary duty to and for our clients and to continually seek better ways to serve you, our sole employers!



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