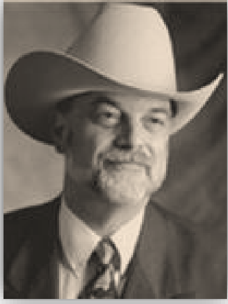

THE PERSONAL WEALTH COACH®

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TPWC Market and Economic Update

The Markets

The S&P 500 Stock Index (SPX) started the week that ended on August 11 smoothly and slowly increasing, but from Tuesday on, it surged up and down as economic and inflation information was released. After all of what the Germans call "strum und drang," at the end of the week, it had fallen only 0.31% to close out the week at 4464.05. That small decline in value left it up 16.22% this year, about 25% higher than it was last October, about twice the value it hit in March of 2020, but still about 7% lower than it was at the beginning of 2022. It is also now about 33% higher than it was three years ago. The CRSP US Mid-Cap Value Index, the other indicator that we follow, ended the week at 2427.43, also down 0.31% for the week but up 3.75% this year and down 6.54% from its record high in January 2022.

The benchmark 10-year US Treasury note yield continued its slow but apparently inexorable climb and ended the week at 4.16%, the highest it has been since November of 2021. The Treasury yield curve remained stalwart in its inversion, with yields from one month to one year all yielding above 5.5% annualized. Notably, the 20-year and 30-year rates have also risen, with the 20-year bond yielding 4.45%. West Texas Intermediate crude oil (WTI) ended the week at $83.04 per barrel as it, too, continued its slow but persistent rise in the face of what looks like an improving US economy with growing demand.

The Economy

As has so often been the case over the past couple of years, the Labor Department's monthly release of inflation data had a lot of attention for the business week that ended on August 11. Also, as usual, there were multiple ways to interpret the data. We pay more attention to the one-, two-, and three-month annualized averages, while much of the news media seems fixated on the percentage increase in the Consumer Price Index (CPI) over the last year. The one-month increase was 0.2%, which, when annualized, comes to 2.4%, while the one-year trailing average came in at 3.2%. Key to our preference for the shorter measurement time is the fact that the 0.2% monthly rise was the same as it was in June, following a 0.1% increase in May. Then, when we look at the "core CPI" and find that it, too, was only 0.2% for the last two months, it seems to us that inflation is coming down to the Fed's target nicely.

The Labor Department also released the Producer Price Index (PPI) or "wholesale price" data this week, that usually is a strong indicator of which way the CPI will go in the following months. At first glance, the news there was not as good. The PPI was up 0.3% in July, with services up 0.5% and goods up 0.1%, seasonally adjusted. But, note that the PPI for final demand did not rise at all in June (0%) after declining 0.3% in May, so the three-month moving average comes to 0%. If inflation is not dead or dying, it is certainly doing a great job pretending to do so.

The bottom line to all the inflation data released for July is that the Federal Reserve has a very good excuse not to raise rates at its next meeting in September. The numbers seem to suggest that once the full effect of the interest increases already in place have time to work their way through the economy, they should bring overall inflation back below or near the targeted 2% range.

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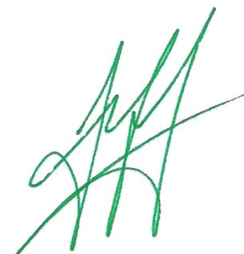
In the rest of the economy, regional, mid-sized banks appear to not be out of trouble. On Monday, rating firm Moody's Investors Service downgraded the bond ratings of 10 of them and put others under review or posted a negative outlook. What looks like a perfect storm is hitting mid-sized banks across the country as depositors are demanding higher rates on deposits even as some of the banks' real estate loans are at risk, and their holdings of longer-term bonds are being priced lower on the secondary markets. Higher long-term rates tend to hurt some elements of the real estate market, potentially lowering the collateral value for the banks' construction loans while, at the same time, reducing the underlying market value of the banks' loan portfolios. The Federal Reserve has reacted to that situation by requiring banks with more than $100 billion in assets to hold larger capital reserves. The result is that mid-sized banks are tightening their lending standards and making fewer loans.

Last but not least, it appears that the People's Republic of China (PRC) is entering *deflation* as prices fall across the country. While inflation is something to be avoided, deflation can quickly become devastating to an economy. Just as that news emerged, President Biden announced an embargo on certain types of technology investments in the PRC beginning next year, which will serve to further deflate the economy there. This situation bears watching.

The good news is that the U.S. economy is proving to be far more resilient than most observers thought, but the economic after-effects of the pandemic are still with us and may continue to destabilize things for some time to come.

Rest assured that even though some of us are on vacation, the TPWC Team is still on duty, ready and willing to take your calls, email messages, or even read your cards and letters. Meanwhile, those of us enjoying cooler weather still have our minds at work, thinking about ways to better serve you, our clients, and sole employers.



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