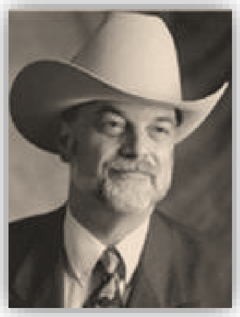

THE PERSONAL WEALTH COACH®

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TPWC Market and Economic Update

The Markets

The old S&P 500 Stock Index (SPX) did its now familiar up and down and back up again dance for the week ending on August 25, then finally, decided to end its three weeks decline by rising 0.82% to 4405.71. While the percent change in the Index was relatively minor, that it ended the week above the psychological important 4400 level was significant. More, it inched higher on the news that Jerome Powell, the Chairman of the Federal Reserve Board, was relatively hawkish in his annual Jackson Hole Economic Symposium, warning that higher interest rates could be in the making. As frightened as stock traders are of the Federal Reserve, it seems they could not ignore the high earnings of some of the biggest companies in the SPX. That minor rise left the Index up 14.75% this year, 23% higher than last October 12, 97% higher than in March 2020, and about 25% higher than it was three years ago. Of course, we must also note that it is also about 8% lower than it was in early January 2022. Minus those ultra-large tech companies that seem to be driving the SPX, the CRSP US Mid-Cap Value Index slumped another 0.35% for the week, although still up just a sliver from the beginning of the year.

After creating a lot of drama last week, the yield on the 10-year US Treasury note slipped 0.01% for the week to 4.25% as Treasury bills maturing in one year of less climbed to levels not seen in decades with the six-month T-bill ending the week at an annualized 5.61%. Yields on the 20 and 30-year bonds climbed as well, ending the week at 4.5% and 4.3% respectively. The yield curve remains inverted but in a strange arrangement where rates are high and rising on both ends but lower in the middle. There are rather well-defined reasons all that is happening, but it is none the less odd.

The Economy

As we have seen so often in the past year or so, U.S. leading economic indicators seem to be in conflict with each other. It is perhaps best in the midst of forecast indicators in conflict to look at where we, meaning the U.S. economy, are in relation to the rest of the world. America's $25.5 trillion GDP last year represented 25% of the world's total, about the same share we had in 1990, 33 years ago. Meanwhile, China, the world's second largest economy, represents 18% of the global GDP. While comparison with China is useful, comparison with other developed world economies may represent a better perspective. When we look at the total GDP of the G-7, the 7 biggest advanced economies in the world, the U.S. has 40% of the total. If we look at income per person, in 1990, the U.S average was 24% higher than the Western European average, but today it is about 30% higher. If we compare ourselves with Japan, generally considered to be among the most affluent of modern nations, we were 17% higher in 1990, but today the average American earns 54% more than the average in Japan. Of course, one may argue that average wages are skewed by a small group of ultra-rich Americans, but the median American earnings is the world's fifth highest, and if we exclude tiny city-states like the United Arab Emirates and Luxembourg, it trails only Norway and Switzerland. As a recent Wall Street Journal article stated, "A trucker in Oklahoma can earn more than a doctor in Portugal." Why is that? First, American workers are generally more productive than those in other highly industrialized countries. Second, our worker population has continued to grow, largely through immigration. And third, U.S. workers tend to work more hours. Will we continue to be the largest and most productive large economy in the world? That depends on a lot of things, like continuing to allow a relatively large number of immigrants into our workforce and continuing to have perhaps the most new-business-friendly economy in the world.

In more specific economic news, new orders for durable manufactured goods fell 5.2% in July after rising 4.4% in June, but if we exclude the extremely volatile transportation sector, July's orders rose 0.2% with core capital goods orders increasing 0.1% while unfilled orders rose 0.5%. All those numbers point to a healthy growth rate. The previously over-speeding labor market appears to be cooling with employers reducing the pay they are offering new hires to levels like what existing workers are being paid. Existing home sales fell 2.2% in July as the average 30 mortgage rate rose to 7.23%, the highest since 2001, according to the St. Louis Federal Reserve Bank.

Last but certainly not least, indicators that China's economy is in trouble continue to emerge. China's fertility dropped sharply from 1.30 live births per woman in 2020 to 1.09 last year. To maintain a stable population with no immigration (as China does), requires a birth rate of 2.1. At the same time, Chinese exports have plummeted, Evergrande, one of the world's largest real estate borrowers and developers ordered all its subsidiaries outside of China to declare bankruptcy even as China's biggest property developer, Country Garden, defaulted on interest payments on dollar-denominated debt with a face value of $1 billion on Monday, the 21st.

Until next week, know that we are back in the saddle again, refreshed, and ready to provide our full fiduciary effort toward serving you, our clients, and sole employers.

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