THE PERSONAL WEALTH COACH®

An SEC Registered Investment Adviser

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TPWC Market and Economic Update

The Markets

Our dear old S&P 500 Stock Index (SPX) turned in a stellar week as August slid to a close and September came roaring out of the gate rising 2.5% to 4515.77. That rise puts the SPX up 17.61% this year. It is now back to twice the level it had in March of 2020, and 26% higher than it was last October. Of course, it is also down about 6% from its record high back in January of 2022 but up 27.5% from where it was three years ago. On the other side of the U.S. stock market, the CRSP US Mid Cap Value Index rose 1.73% for the week, closing at 2383.78 up 1.89% this year but down 8.22% from last year's record high.

The benchmark 10-year U.S. Treasury note was yielding 4.18% as the week ended and a new month began. Last year at this time the 10-year yield was about 3.2% and two years ago the yield was 1.33%. The Treasury yield curve persisted in its inverted profile, with the highest annualized rate being 5.58% at four months while the 30-year T-bond was trading at a 4.29% yield. West Texas Intermediate crude oil, the U.S. benchmark for petroleum, rose about 7.4% to $85.95, reacting to the news that the U.S. economy was not falling into recession, but rather continued to show all the classic signs of continuing healthy economic growth and that demand for petroleum would rise with the economy.

The Economy

In the United States, unlike most of the other developed countries in the world, the prime driver of economic growth is household spending. The Commerce Department announced that seasonally adjusted consumer spending rose a very healthy 0.8% in July, following a 0.6% increase in June. That July rate, if annualized, equates to a very robust 10.03% per year. In the recent past that would have been the kind of good news that was bad news because it might cause the Federal Reserve to overreact and raise interest rates high enough to cause a recession. Instead, the stock markets saw it as just good news because the Labor department also released the Personal Consumption Expenditures Price Index (PCE) rate for July and prices only rose 0.2%. That reading put the three-month PCE at an annualized rate of 2.1%, almost exactly the target the Fed has set for a healthy level of inflation in the U.S. and was the lowest reading since January 2021.

First, the Bureau of Economic Analysis (BEA) at the Commerce Department issued a correction to its earlier second quarter GDP growth rate, lowering it slightly to 2.1%. Then, S&P Global Market Intelligence forecast a 3.8% annualized GDP growth for the third quarter of 2023, while the Atlanta Federal Reserve Bank forecast 5.6%, and Moody's Analytics forecast a 4.9% annualized rate. No matter which forecast one chooses, the American economy is not only avoiding a recession but appears to be accelerating even as interest rates rise, and inflation fades to the low level the Fed wants to see.

If all that was not enough good news, the Labor Department's Bureau of Labor Statistics (BLS) reported that the number of job openings in the U.S. has declined from last year's 11.9 million to 8.8 million openings last month. That is still about 1.5 jobs unfilled for every unemployed person but is far better than what we have seen over the past couple of years. It is also closer to the 1.2 openings per job seeker we saw before the pandemic. Overall, U.S. employers added 187,000 jobs in August, a number quite close to the steady-state number the Federal Reserve has been looking for. The unemployment rate rose from last month's 3.5% to 3.8% but not because workers were being laid off, but rather because about 736,000 people entered the job market in August.

Across the board, the reports we have seen for the week appear to be defining what economists refer to as a "Goldilocks" economy; not too hot nor too cold. Still, there were some negatives reported too. U.S. Automobile loan delinquencies jumped 20% in August, rising to levels above those we saw in 2019. The rise in overdue auto payments has concentrated, as it often does, in the subprime, higher interest rate loans made by non-bank lenders to buyers with credit scores below 660.

Another less than optimal set of data came in from China, as anecdotal evidence continues to emerge that the world's second largest economy is not well. Manufacturing in that export-driven country shrank for the sixth consecutive month even as service sector activity slowed. Based on current data, it appears that the U.S. economy may grow this year at a faster pace than China's for the first time in decades. China's official turn from being dependent on exports to a consumer driven economy appears to be in real trouble as consumers have turned fearful and cut back on spending. Another export-driven economy, Germany, saw a continued contraction in economic growth even as inflation remained much higher than in the U.S.

Meanwhile, know that the whole team at the Personal Wealth Coach® remains hard at work doing their best to do their fiduciary duty to you, our clients, and sole employers!

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