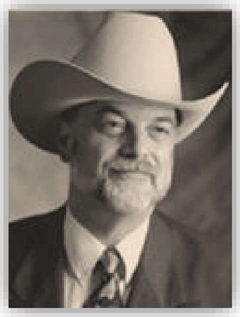

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September 8, 2023

TPWC Market and Economic Update

The Markets

It is September and historically the U.S. and other stock markets perform poorly in September in most, but not all, years. There are a lot of ideas as to why that is, but no matter what the cause, it remains that stocks tend to drift downward this month. So, in the first week of September, as expected, The S&P 500 Stock Index, in its role as total market representative, fell 1.29% to 4457.49 for no particular reason. As we do, putting that in perspective, the SPX is now up 16.10% this year, 24.45% higher than it was last October, still about twice the value it had in March of 2020, and about 35% higher than it was three years ago at this time. Of course, it is also down about 7% from where it was at the beginning of 2022.

The benchmark U.S. Ten-year Treasury Note ended the week yielding 4.26%, the highest yield we have seen since last October. The Treasury yield curve remained decidedly inverted with all Treasury maturities of one year or less yielding in excess of 5.4%. Ironically, the lowest current yield in the curve is the ten-year note with literally all maturities less than that or more than that with a higher interest rate. With Saudi Arabia and Russia announcing oil production cuts it was not a surprise to see West Texas Intermediate crude oil (WTI) rise to $87.29 per barrel. Again, that is the highest price we have seen in a year or so. Standby to pay more at the pump.

The Economy

Like the Treasury yield curve, the U.S. economy is continuing to function in a manner that most economists would have said was not possible as recently as a year ago. Interest rates are the highest we have seen in 22 years, and got that way in record time, yet new houses are selling before the foundation is laid. Despite a clear slowing in the manufacturing side of our economy, manufacturers are holding tight to workers and slowly raising pay levels.

There is an old saying dating to at least the middle of the last century that economic expansions do not die of old age but rather are murdered by the Fed. Since World War II, each economic expansion has succumbed to increases in interest rates as borrowing money to keep adding capacity became prohibitively expensive. In each of the interest rate increases we have seen for at least the last 75 years, they were matched by increased layoff rates as businesses dug in to survive what came to be considered as the inevitable reduction in consumer demand. Since consumer demand is what makes up about two-thirds of our economy, that seemed like a law of physics. This time around, as the Fed raised rates in the most aggressive increase in 40 years, businesses neither slowed construction nor durable goods purchases, added a net 3.1 million jobs over the last 12 months instead of laying off workers, and consumers continued to spend more as their inflation-adjusted, or real incomes rose about 3.8% since last July. It appears to really be different this time.

Why has that happened. First, the recession we saw in 2020 was unlike any we have seen in a hundred years. While unemployment went up, it did not do so at the rate we have seen in past recessions. Yes, there were stimulus checks that went out, but we have seen that happen before. What was different was that the pandemic created a forced reduction in demand, particularly for services. When it was finally over, the rebound as consumers had accumulated record amounts of savings while using the stimulus checks to pay down debt was unlike anything we have seen before. Moreover, a lot of baby-boomers decided that the forced time off they found themselves with constituted a good excuse to retire. Then, largely because of a concerted effort over the past decade or more to move jobs across the border into Mexico, the flow of illegal immigrants looking for jobs shrunk to a trickle. Those two factors produced a labor shortage, and when there is a shortage of something people or businesses need, they will be likely to pay more for that commodity. In this case it was workers. Those higher-paid workers are still buying things, eating out, vacationing, going to movies, and generally driving our economy. On top of that, with debts at a low point, savings accounts higher than we have seen in most of a century, and an abundance of steady, high-paying jobs, those who did not own a house decided this was the time to correct that. Home building is the activity that has the highest money multiplier in our economy, and that is showing. Most of a home purchase is borrowed money that was not previously in circulation and there is a lot of home building going on so, a lot of money that was locked up in banks is now circulating in the economy and driving our GDP higher.

The Institute for Supply Management services sector index jumped to 54.5 from last month's 52.7 for its eighth straight monthly gain on a scale where numbers over 50 reflect economic expansion. Yes, the manufacturing ISM index is below 50, but that is relative. Because the rebound effect last year was so high, the contraction we have seen in manufacturing appears to simply be a retreat to a sustainable level from one that that was too high to maintain.

The U.S. economy is on a roll with a lot of momentum and plenty of money to keep it going. At the same time, data coming out of China suggests that their economy is in serious trouble, and the European economy could be said to be limping along at best. It is a good time to be here rather than anywhere else.

Until next week, we remain hard at work in a never-ending endeavor to better serve our clients with the highest-level fiduciary portfolio management and service.

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