THE PERSONAL WEALTH COACH®

An SEC Registered Investment Adviser

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September 15, 2023

TPWC Market and Economic Update

The Markets

The S&P 500 Stock Index (SPX) turned in another choppy week, during which it soared as high as 4510 but ended the week at 4450.32, down 0.16%. As it see-saws up and down in a trading range, it remains at about twice the value is had back in March of 2020, about 24% higher than it was last October, up almost 16% this year, and 35% higher than it was three years ago, but also about 7% lower than it was at the beginning of 2022. Our other normally tracked index, the CRSP US Mid Cap Value Index closed out the week at 2349.32, up 0.18%. It remains up about half a percent this year but is down almost 10% from its all-time high in early 2022.

The benchmark 10-year U.S. Treasury note yield inched up 3/100 of one percent to 4.33%. We have become used to the 10-year rate at that level, but it is good to remember that the current 10-year yield and interest rate is a whopping 186% higher than it was at the beginning of 2022 when the yield was a measly 1.77%. West Texas Intermediate crude oil (WTI) soared another 4.4% to end the week priced at $91.12 per barrel as a combination of production restrictions announced by Saudi Arabia and Russia, and the robust growth of the U.S. economy pushed up demand in the face of limited supply. That rise in oil prices is showing up at the gas pump where the average price of a gallon of regular gasoline in the U.S. is now up to $3.86 according to the American Automobile Association.

The Economy

The economic news of the second week in September was impressive and to no small degree, confusing. Both Moody's Analytics and the Atlanta Federal Reserve bank are estimating that the third quarter U.S. gross domestic product (GDP) growth will be between 4% and 5% on an annualized basis. That is the kind of economic growth one would expect coming off the bottom of a recession and certainly not nearly four years into an expansion, where we are today. It is also quite counterintuitive in the face of one of, if not the fastest and largest increase in short-term interest rates in our nation's history. Those new estimates came on the heels of a report from the Commerce department that Americans increased their spending at retail establishments by 0.6% in the month of August. That relatively high monthly growth in spending was tempered by the news that if one excludes gasoline from the report, sales were only up about 0.2%, a number quite close to the Federal Reserve's target.

At the same time, the Producer Price Index (PPI), an indicator of what wholesalers are charging retail merchants, rose 0.7% in August, a number that if annualized is more than a little scary. Once more, fuel was the culprit, and if we remove that one element from the equation, wholesale prices only rose 0.1% and signal that inflation is well below the Fed's target. Perhaps more realistic is the so-called "core PPI" which was up 0.3%, suggesting that inflation is running at about 3.6%. That number, combined with the current estimate that the Fed's preferred inflation gauge, the core-PCE inflation index is about 3.8% higher than it was a year ago, suggest that inflation is coming down nicely and there will be no need to continue to increase short term rates.

As we mentioned above, the evidence we can see suggests that the U.S. economy is accelerating at a level that no one we are aware of predicted for the third quarter of 2023. At the same time, despite the gross numbers of prices rising far too fast to be healthy, once we subtract the recent and likely short-lived and artificial rise in the price of fuel, it looks like the inflation rate is continuing to decline.

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Unfortunately, the same cannot be said for much of the rest of the world. The European Central Bank (ECB) raised short-term interest rates there to 4% from the below zero rates that were common a couple of years ago, its 10th increase in a row and a record high. That increase was in response to the EU one-year inflation rate of 5.3%, unchanged from last month even as the ECB staff is estimating a zero GDP growth in the third quarter. On the other side of the Atlantic, the stagflation that we feared might happen here is becoming a reality there.

The prices of existing homes in 100 cities across China fell an average of 14% from their peak two years ago, according to the Beike Research Institute, an internal Chinese research firm, while rents have fallen 5%. China may be able to dodge actual deflation, but most available indicators suggest that economic growth has stagnated, and general prices are falling.

Once again, we, here in the U.S., appear to be in a "Goldilocks" economy where growth is good, unemployment is low, and inflation is declining while European nations are struggling with a combination of low to negative economic growth coupled with high inflation, and China is fighting to keep from sliding into a deflationary recession. The experiment continues, but so far, the chaotic, disorganized, free market system we have in the United States of America appears to be winning the post-pandemic race.

Until next week, we remain steadfast in our dedication to our fiduciary duty to you, our clients and sole employers.

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