THE PERSONAL WEALTH COACH®

An SEC Registered Investment Adviser

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TPWC Market and Economic Update

The Markets

Our old faithful indicator of where the U.S. stock market is and what it is doing, the S&P 500 Stock Index (SPX) gyrated around all week dropping down to around 4243 mid-week between intraday highs near 4300 and 4400 before finally closing out the week, the month, and the quarter at 4288.05. That close put it down 0.74% for the week, down about 5% for the month and down 3.95% for the quarter. It is now up 11.68% this year, almost 20% since last October, and about 30% from this time three years ago. Of course, we must also report that today's close leaves the SPX 10.54% lower than it was at the beginning of 2022. Once more, whether the market is up or down depends entirely on one's perspective. The CRSP US Mid-Cap Value Index, our other followed index, declined 1.22% this week to 2261.98, leaving it down 3.32% this year and almost 13% lower than it was as 2022 began, but about 4% higher than it was last October.

At least according to the pundits on Wall Street, one of the reasons the stock market is in the doldrums is because bond values are sinking as interest rates rise. The ten-year U.S. Treasury note, generally considered the benchmark for longer term loans and bonds, ended the week yielding a very substantial 4.59%, an increase of almost 30% from the beginning of the year. Meanwhile, the yield curve remained solidly inverted with all maturities of less than one year holding their ground near an annualized rate of 5.6%. To provide a reference on what rising intermediate interest rates have done to bond values, the S&P U.S. Treasury 7–10-year bond index has lost an annualized average of 7.58% per year over the past three years or a total of about a 21% decline in value. West Texas Intermediate crude oil (WTI) prices rose to as high as $95 per barrel mid-week before settling back to $90.77, up about half a percent for the week.

The Economy

The Bureau of Economic Analysis (BEA) in the Commerce Department, released their "Third Estimate" of U.S. real GDP growth (annualized) in the second quarter this week at 2.1% and revised the first quarter growth to 2.2%. While the news that our economy is chugging along at about the maximum rate it could maintain over the long term was certainly good news, the other news the BEA posted may be even better. The year-over-year PCE inflation index was up 3.5% for the 12-month period ending in August. Better yet, the so-called "core" PCE, excluding the volatile prices of food and energy, only increased 0.1% last month. That low inflation rate, should it continue, may well convince the Federal Reserve that inflation is no longer a major threat, and cause them to cease rate hikes. Combine that with another item in the BEA report, that disposable personal income rose 0.2% and total income rose 0.4% in August, and we have the ingredients of a sustainable, healthy growth rate here in the U.S. of A. but without the inflation threat. It is hard to imagine a better combination of economic statistics.

There are certainly bits of data out there that warrant some concern and there are enough of those that the Chairman and CEO of BlackRock, Larry Fink, speaking at the Berlin Global Dialogue conference on Friday, stated, "I see more fear than any time in my business career." In the peculiar way of markets, that observation is good news. Without exception, stock market crashes and the more severe economic downturns are immediately preceded by periods of what former Fed Chairman, Alan Greenspan referred to as "irrational exuberance," and extremely low fear. Typically, across economic history, the bottom of an economic cycle or market downturn is marked by record levels of fear, and that is exactly what we are seeing. When asked at the conference if he thought the U.S. was headed for a recession, Mr. Fink replied, saying he "doesn't see it anytime soon." but maybe by 2025. "Whatever recessions we're going to have, they're going to be quite modest, so I'm not even that fearful."

The U.S. Census Bureau added their bit to the economic debate too. U.S. new orders for manufactured durable goods increased half a billion dollars in August or 0.2%, an annualized rate of 2.4%, after rising five of the last six months. Better yet, the so-called "core orders", which excludes defense and transportation orders, rose 0.9% for the month. Durable goods, in this case, are primarily businesses ordering equipment that is expected to last for several years. Typically, a recession is in the works when businesses start cutting orders for long-term equipment, and the end of the typical recession is signaled by a substantial increase in core durable goods orders.

Yet again, the foundational elements of our economy are signaling not only the absence of the much-forecast recession, but are also signaling to us that we may very well be in the opening months of a burst of economic growth here in the U.S.

Until next week, do be assured that we are and will be hard at work providing fiduciary advice, portfolio management, and best-in-class personal service to you, our clients, and sole employers.

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