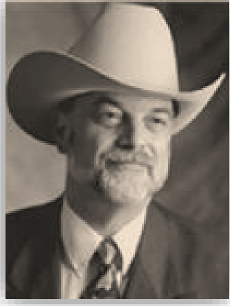

THE PERSONAL WEALTH COACH®

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TPWC Market and Economic Update

The Markets

The best news for the week in which October and the 4th quarter of the year arrived is that September is, at last, behind us. The S&P 500 Stock Index (SPX) started the new month and quarter with a rise of 0.48%, ending the week at 4308.50. That new number leaves the SPX up 12.22% this year, over 20% higher than it was last October and about 93% higher than it was in March of 2020. Of course, it is also down a bit over 10% from its high in 2022. The CRSP U.S. Mid Cap Value Index declined 1.53% for the week to 2227.32, leaving it down 4.80% year to date but up 4.34% from this time last year. Once more, if the old saying that "A bull market climbs a wall of worry." is true, then we must be in a serious bull market, because we find ourselves agreeing with Jamie Diamond that we have never seen such pessimism and fear in our over four decades of providing investment advice.

As has been true for the last couple of months, the big moves were in the bond markets. The 10-year U.S. Treasury note ended the week yielding 4.78% while the 20-year bond yield rose to 5.13%. All the Treasury bills with less than a one-year maturity date had a yield around 5.6%. Those numbers are hard to understand, so consider this. Just over three years ago, the 30-year U.S. Treasury bond was selling at $1,008. A 30-year U.S, T-bond sells for about $550 today. A portfolio of long-term Treasuries has lost about 45% in market value in just over three years. Unfortunately, there were people, banks, insurance companies, and pension funds that bought those longer-dated Treasuries back in 2020 and are faced with the largest market value decline in Treasuries ever seen. If they hold them for the full 30 years, yes, they will get $1,000 along with the very low interest payments they received, but if they need the money now, they are going to take a big loss. There was some good news in the market this week too, as the price of a barrel of West Texas Intermediate crude oil dropped 8.8% from last week's $90.77 to Friday's price of $82.78. We expect to see that price reduction showing at the gas and diesel pumps soon.

The Economy

There was plenty of news in the economy for the first week in October and, as usual, the message was very mixed. Longer-term interest rates soared, taking some of the inversion out of the bond market, but in a manner most bond investors and traders did not expect. During most of 2023, pundits and traders were anticipating that we would have a full-blown recession by now and that, as a result, interest rates would plunge on the shorter end of the bond curve but that longer term rates would remain largely as they were. Instead, short-term rates have held steady while longer-term rates have risen to the highest level in 16 years.

On Friday, the Labor Department reported that American businesses created and filled 336,000 jobs in the month of September while unemployment held at a near record low of 3.8%. The "neutral" monthly new hire rate is around 150,000 to 200,000, so an increase in employment that high could easily be seen as an indication of overheating economy, causing the Federal Reserve to increase interest rates more than previously expected to dampen out inflation. Then the other shoe dropped. The Commerce Department's Bureau of Economic Analysis (BEA) released its Personal Consumption Expenditures Index (PCE) price changes. For one year, the PCE was up 3.5%, but critically, the "core" PCE, the metric to which the Fed pays the most attention, was only 0.1% higher than it was in August. The monthly change in core PCE early in the year was running along at 0.3%, then dropped to 0.2% over the summer,

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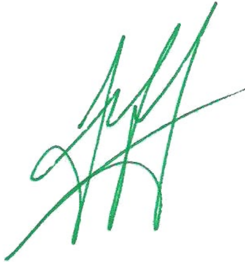
and is now down to 0.1%. In that same report, the BEA also stated that consumer spending, the largest single element in our GDP, rose 0.4%, an annual rate of 4.8%.

Even manufacturing, which is only 8% of our GDP, but carries a lot of symbolic weight, appears to be coming back. Back in June, the ISM Manufacturing Index was down to about 46, on a scale where numbers below 50 suggests contraction and over 50 indicates net growth. It has moved from that recession forecasting level of 46 to 49 in September. Better yet, the most important element in that report, Production, rose to 52, indicating that U.S. manufacturing has recovered from its slump and is expanding.

Yes, the data is confusing not only to lay people, but also to veteran economists. Hiring is proceeding at a near record pace, layoffs are few and small, personal spending, much of it by all those newly hired people, is accelerating, but inflation is slowing and currently is running at about 1.2% annually according to the core PCE. Meanwhile, employers, even in the slowed manufacturing sector, are hanging on to their employees. When asked why, the consensus appears to be that they are anticipating a surge in new business coming down the line. The overall picture remains the same with more confirmations each week. The American economy is growing nicely and seems to have the momentum to accept higher interest rates and keep on going.

We remain your faithful, fiduciary servants,



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