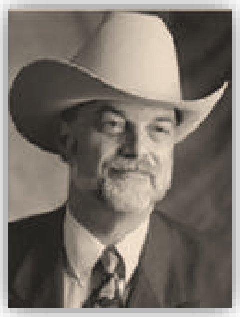

THE PERSONAL WEALTH COACH®

An SEC Registered Investment Adviser

Jeffrey W McClure CFP® *Jacob A McClure* CIMA®

PO Box 1029 / 918 N. Main Street
Salado, TX 76571

(254) 947-1111
(800) 914-7526

Serving Investors Since 1982

www.tpwc.com

jeff@tpwc.com

jake@tpwc.com

October 13, 2023

TPWC Market and Economic Update

The Markets

The markets finished the second week in October and in the last quarter of 2023 on a Friday the 13th. During the week, the headlines were about the worst attack on Israel since 1948, and Israel's response, punctuated by a Labor Department report that year-over-year inflation was higher than expected and far higher than the Federal Reserve's targets, the auto worker's strike worsened, and small business sentiment appears to have soured. In short, there was no shortage of worrying news. So, of course, the stock markets, represented here by the S&P 500 Stock Index (SPX), *rose* 0.45% to close at 4327.78. That closing price leaves it 12.71% higher this year, about 21% higher than it was a year ago, and about 93% higher than it was at the bear market bottom in March of 2020. It is also about 24% higher than it was three years ago but still about 9.7% below where it was in January of 2022. Our other followed index, the CRSP US Mid-Cap Value Index, rose a whopping 0.47% for the week to close at 2237.71, leaving it about 4% lower than it was at the beginning of this year and about 14% lower than at the beginning of 2022.

The Benchmark 10-year U.S. Treasury note yield slipped just a bit to 4.63%, leaving it as the low point in the Treasury yield curve, with the 20-year Treasury bond yielding 4.97 and both the three and four-month T-bills paying an annualized rate of 5.62%. With all the tension and rumors of war in the Middle East, we certainly would have expected the price of oil to surge upward, but instead, it only rose about 6% to $87.71 per barrel, well below its recent highs of about $91.

The Economy

As the markets report suggests, the real economic news for the week was more about what didn't happen than what did. In years gone by, an attack on Israel could be depended on to send oil prices skyrocketing. It also routinely caused the U.S. stock market to plunge out of fear about what a dramatic increase in oil prices would do to corporate and public earnings. We didn't mention above that the majority political party in the U.S. House of Representatives seems to be deadlocked and unable to elect a Speaker of the House. That would be a side story except that in just a few weeks, the U.S. government will grind to a halt with none of its employees being paid unless the House originates a budget bill acceptable to both the Senate and the President. Without a Speaker, negotiations are not taking place to enact that economically vital bill, and there can be no proposal to keep the government operational.

Whether we like it or not, the biggest employer and spender in our nation is the federal government. Not paying its millions of employees and contractors would be a severe blow to our economy and, if continued for more than a very short period of time, would almost certainly cause a recession. Oh, and add to all of that the minor fact that one of, if not the biggest real estate company in the world, Country Garden, defaulted on its bond payments and is quite likely headed toward a collapse and bankruptcy. Untold billions of dollars in loans from both Chinese and Western bondholders may be about to vanish.

So, what didn't happen? The stock market *rose,* interest rates stayed largely where they were before the drama, oil prices did not soar, and things appeared just to continue along as if nothing particularly notable had occurred. The most interesting story is "Why?" The answer can be found in the mass of apparently conflicting data in that Labor Department Consumer Price Index (CPI) Report. Yes, the 12-month, all items change in price was 3.7%, far higher than the Federal Reserve (the Fed) target of 2%, but the one-month change was only 0.2%, or an annualized rate of 2.4%. Looking a bit deeper, the so-called "core" CPI only rose 0.1%. Moreover, the apparent higher inflation is being nearly totally driven by rents. The problem with including rents is they are prices that were set over the last one to two years and generally do not indicate what is actually happening now. Another report from the Labor Department, the New Tenant Repeat Rent Index (NTRR), looks at the same sample of rent rates but only includes new rental contracts signed in the last month. That report indicates that rental rates have stabilized.

What else happened? Since the last time Israel and its neighbors got into a brawl, the United States has become the world's largest oil producer. Moreover, our economy has diversified and now has a secret weapon. The secret weapon is the host of retirees with little debt and plenty of money in savings. And there was one more announcement: Social Security payments will rise 3.2% as 2024 begins. In the end the one item in all that list of worries that has the potential to really hurt us is if the deadlock in the House of Representatives continues. Why was there no reaction in the markets to that threat? It was because we have faith that those politicians will not really crash the economy because if they did, they would probably not get reelected in 2024. and in the end, their first priority is to stay in their positions of power, so their threats are empty. Let's hope and pray we are right.

Until next week, we remain your faithful fiduciary portfolio managers and investment and financial advisers. Our TPWC team is there for you, so don't hesitate to call, write, or email.

Jeffrey W. McClure, CFP®
M.S. Personal Financial Planning

Jacob A. McClure, CIMA®