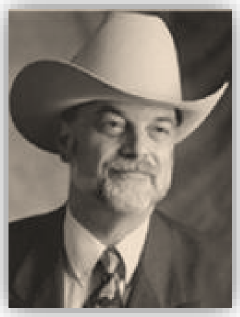

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TPWC Market and Economic Update

The Markets

We have to wonder if the traders on Wall Street read the news. According to reports on why the stock market started a slow downward trend midday Tuesday, those traders only then began to be aware that there were some issues in Congress and in the Middle East that might impact the economy. The S&P 500 Stock Index (SPX), in its role as our chosen representative of the U.S. stock market, ground slowly down 2.39% for the week, closing at 4224.16, leaving it where it was back in May, but still almost 18% higher than it was last October. It remains up over 10% this year but is almost 12% lower than its record high in early 2022. Our other market indicator, the CRSP US Mid Cap Value Index joined in the slide, declining 2.68% to 2177.71. If it is any consolation, the market slippage this week was in concert with all the major markets around the world.

The benchmark 10-year U.S. Treasury note, not to be excluded from the pity party, fell in value, causing its yield to rise to 4.93% after briefly crossing the 5% mark, again hitting the highest yield in 16 years. As we have suggested would happen, the short-term end of the Treasury yield curve, maturities under 1-year, held fairly steady around 5.5% to 5.6%, but the yield curve flattened, not because of a fall in short-term rates, but because of the rise in longer-term rates. The bond market seems to be headed back to the rates and curve levels we considered normal before the banking crisis of 2008-2009. West Texas Intermediate crude oil (WTI) inched upward about 1.5% to $89.02, but notably did not surge to the highs it hit in mid-year 2022 when $120 per barrel was proclaimed as the "new normal."

The Economy

Perhaps the most significant economic news for the business week that ended on October 20, was about retail sales. On Tuesday, the Census Bureau reported that the seasonally adjusted U.S. retail and food services sales for September were up 0.7% from August and up 3.8% from September 2022 and, in the same report, raised their previous estimates for July and August to 0.6% and 0.8%. 0.7% doesn't sound like a lot, but if you annualize that number, it comes to 8.4%, and suggests that the U.S. economy, which is composed primarily of consumer spending, is accelerating. At least part of that rise in sales appears to be a result of a marked disinflation in retail prices. Across the country, retail prices have risen less than 2% over the last twelve months. Appliance prices were nearly 1% lower in the third quarter than in the second, while furniture and bedding prices fell 1.7%. U.S. industrial production also produced a surprise for September as it rose 0.3%, despite the drag of higher interest rates. Adding to the positive implications of that data point is the report by the Bureau that manufactures' goods orders rose 1.2% in August and orders for durable goods, one of the better leading indicators, rose 0.2%. We hate to sound like a broken record, but we continue to see indications that the underlying engine that drives our economy is humming along and even picking up a bit of speed.

It is not coincidental that the stock market started slipping as that report came out. Indication of an accelerating economy raised fears that the Federal Reserve would be forced to further raise short-term interest rates and increase the risk they would overreact and plunge us into a recession. We once more are in the "good news is bad news" mode. When that was combined with the events in Congress and the potential for a war in oil-producing Southwest Asia, the slump was continued.

On the negative side of things, the average rate on a 30-year fixed mortgage rose to 7.63% according to a survey of lenders by Freddie Mac, the highest 30-year mortgage rate since 2000. That higher interest rate is likely affecting the sales of existing homes. According to the National Association of Realtors, existing home sales were down a relatively dramatic 2% in September when compared to August. On the other side of that coin, again, according to the Census Bureau, new home sales rose a stunning 5.7% in September. The median sales price was another astonishing number, $430,000.

As we review the Economic Indicators report from the Census Bureau, where all the multitude of indicators tracked by that agency are combined, the U.S. Census Bureau Index of Economic Activity (IDEA), a clear pattern appears. Following the sharp downturn during the pandemic-induced recession of 2020, the variance in month-to-month reports has been the most volatile set of numbers we can find since the Index started in 2004, but in in the last six months, those numbers appear to have been stabilizing with a moderate upward trend.

For yet another week we find ourselves with the same bottom-line report. The U.S. economy appears to us to be in good shape with sustainable growth despite the many doom-sayers. The future is always uncertain, but from a strictly economic standpoint, it looks positive to us. The major threat continues to appear to be a potential self-inflicted wound from the House of Representatives if a government shutdown results from the current ideological conflict in the majority party.

Until next week, we remain, and pledge to continue to do our best to provide the highest quality, fiduciary investment and financial advice and portfolio management to you, our clients, and sole employers.

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