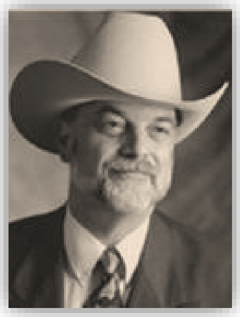

THE PERSONAL WEALTH COACH®

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 27, 2023

TPWC Market and Economic Update

The Markets

The US stock market, as represented by the S&P 500 Stock Index (SPX), went through a now familiar pattern for the week that ended on the 27th. It started up on Monday, leveled off on Tuesday, then slowly ground lower on the last three days of the week to end the week at 4117.37, down 2.53% and at its lowest point in the last six months or so. If we count from the end of week high on July 28, it is now down just over 10%, and thus is hypothetically in a "correction." Of course, there are a lot of ways of looking at that. The SPX is also up 7.34% this year, about 15% higher than it was in mid-October of last year and is nearly 30% higher than it was three years ago (an 8.9% average annual rate of return). But if we want to look for the negative not mentioned in any news story we could find, our dear old SPX is just over 14% lower than it was at the beginning of 2022. The CRSP Mid-Cap Value Index, our other market indicator, followed its older and larger cousin, but with less enthusiasm, declining a mere 1.54% over the last five days, to 2144.15. It is now down over 8% this year, and 17% since last year began but remains 1.25% higher than last October. If all those numbers sound confusing, it is because they are! We are either in an impressive bull market, an either serious or mild correction, or bumping between the two like a blind man in a dark room. It all depends on your perspective.

Also, as is usual as of late, the real excitement was in the quite ephemeral bond market. The benchmark 10-year U.S. Treasury note yield flirted with a 5% yield twice in the week, but then bowed out gracefully yielding 4.84% before taking the weekend off. That is higher than we have gotten used to, but nearly 3% lower than where it ended last week. The shortest-term Treasuries, maturing in less than one-year, remained around 5.6%, where the yield has held for some time, keeping the Treasury yield curve decidedly inverted. Meanwhile, the 20- and 30-year Treasury bond yields continued edging toward and past 5%. The more we look, the more we see 5% becoming a form of "new normal." Despite the best efforts of the Saudis and the Russians and war in the Middle East, the price of a barrel of West Texas Intermediate crude oil slipped down 4.41% to $85.09.

The Economy

Without a doubt, the biggest economic news for the week was the official first estimate from our beloved Bureau of Economic Analysis (BEA) that the Gross Domestic Product (GDP) of these United States of America rose at an annualized rate of 4.9% in the third quarter of 2023. While there was much hurrah about that number, what appears to have been largely missed is that number is the same growth reported for the much vaunted, Chinese juggernaut economy for the same period. In fact, since the People's Republic of China (PRC) measures its GDP based on reports from local Communist Party offices rather than from actual national data, academic researchers from the Brookings Institute suggested in a 2019 paper that the PRC GDP report runs about 1.8 points higher than reality. That means in the third quarter of 2023, the U.S. economy very likely outperformed the smaller PRC economy by a whopping 58%!

Not satisfied with that headline-grabbing GDP report, the BEA also reported that Personal Income and Outlays for September rose 0.3% ($77.8 billion) while Personal Consumer Expenditures (PCE) were up by 0.7% (138.7 billion). In other words, the spending boom, which drove the GDP report, is not likely to last too long. U.S. consumers are increasing their spending faster than their income is rising. The most watched statistic in the report, the PCE Price

Index was up 3.4% in the last 12 months and appeared to be rising at about that annualized level month to month. Given the Federal Reserve's mandated goal of reducing price increases (inflation) to an annualized 2%, it looks like they have some work left to do. That conclusion was the reported reason for the stock market slump.

Speaking of slowing things down, the Mortgage Banking Association announced that the average 30-year home new mortgage rate is now up to 7.9%. Not coincidently, mortgage applications were down 2.2% from last week, falling to the lowest level since 1995. At the same time, U.S. new home sales surged an astonishing 12.3% in September, according to the Census Bureau. Builders appear to be offsetting the higher mortgage rates with discounts and financial incentives to keep the sales coming. What is unclear is how long house building companies can keep that up.

The bottom line is that the U.S. economy remains on a roll, but ongoing inflation remains stubbornly higher than the Fed will tolerate. Odds appear to be that the Fed will not raise rates at their meeting next month, instead relying on rising longer term rates to slow demand and control price rises. The consensus of economic forecasters has now moved to our view that there will be no significant recession soon. We are glad to see them finally come around to our point of view but find it a bit disturbing to be in concert with the mass of forecasters who are so often wrong.

Until next week, know that we, and the whole TPWC team, are hard at work creating and providing the best possible fiduciary advice and portfolio management we know of.

Jeff

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

Jake

Jacob A. McClure, CIMA®