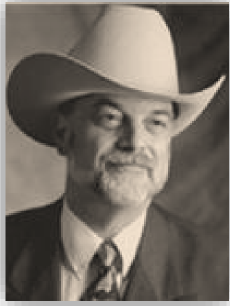

THE PERSONAL WEALTH COACH®

An SEC Registered Investment Adviser

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TPWC Market and Economic Update

The Markets

Our dear old favorite, if fundamentally flawed, U.S. stock market indicator, the S&P 500 Stock Index (SPX) turned in one of its typical counterintuitive weeks as it took off like the proverbial scalded cat for the week ending on November 3, as the Index rose a whopping 5.85% to 4358.34! If you are keeping score, that rise took it right out of any suspicion of being in a correction and returned it to bull market status. It is now up 13.51% this year, about 22% from last October, and 95% higher than it was in March of 2023. Of course, we must admit that the SPX is still down about 9% from its record high at the beginning of 2022. Not to be outdone by its older, larger sibling, the CRSP US Mid-Cap Value Index, our other followed market indicator, rose 6.28% for the week to 2278.76, although it is still down 2.6% for the year as well as being about 12% lower than at the beginning of 2022. A bit of hope was added to the picture as Morningstar reported that their models suggest that the U.S. stock market is significantly undervalued considering its recent decline and the unexpectedly high earnings reports coming in for the third quarter.

Once more, the bond market was the center of attention as the yield on the 10-year U.S. Treasury note fell to 4.57% from last week's top of just over 5%. The Treasury yield curve remained solidly inverted with the less than 1-year maturities remaining around 5.5%. In a distinct surprise, West Texas Intermediate crude oil short-term futures fell to $80.89 per barrel heralding the hope for lower fuel prices as we approach the holiday season.

The Economy

The week was chock full of economic reports from both private and government agencies, not to mention a meeting of the Federal Reserve Board. The stock market breathed a sigh of relief on Wednesday as, despite the upbeat news for the U.S. economy, it elected to hold interest rates steady for the near future in a range of 5.25% to 5.50% in a unanimous vote. There was real fear that the 4.9% annualized U.S. GDP growth rate reported last week would shift the Fed into a rate increase. In the news conference following the meeting, Chairman Jerome Powell said he expects the economy to soften in the months ahead and was willing to let the higher longer-term rates do their work without an increase in short-term rates. Over the last year, prices have risen between 3.4% and 3.7%, depending on which measure one uses, but recently inflation has steadied at an annualized rate of between 1.2% and 2.4%, about where the Fed wants it to be. Based on their public comments over the past month, Federal Reserve Board members have shifted their focus away from raising rates to the issue of leaving rates at their 22-year high for much longer than many commentators have anticipated.

As if to echo the Fed's assurance that the economy has or is returning to a reasonable, sustainable rate of growth, the Labor Department reported on Friday that U.S. employers added 150,000 jobs in October, half the unexpectedly high job growth reported in September. At the same time, the household survey indicated that the unemployment rate rose to 3.9%, very close to the theoretically sustainable rate of about 4%. In the same report was the counterintuitively encouraging news that the job creation estimates for August and September were revised downward by over 100,000.

To us, the most significant report of the week also came from the Bureau of Labor Statistics (BLS), one of our favorite government agencies. As a result of labor costs not rising as fast as unit production, the third quarter 2023, preliminary estimate of nonfarm business sector labor productivity increased at an annualized rate of 4.7%! For those unfamiliar

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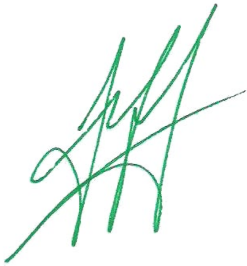
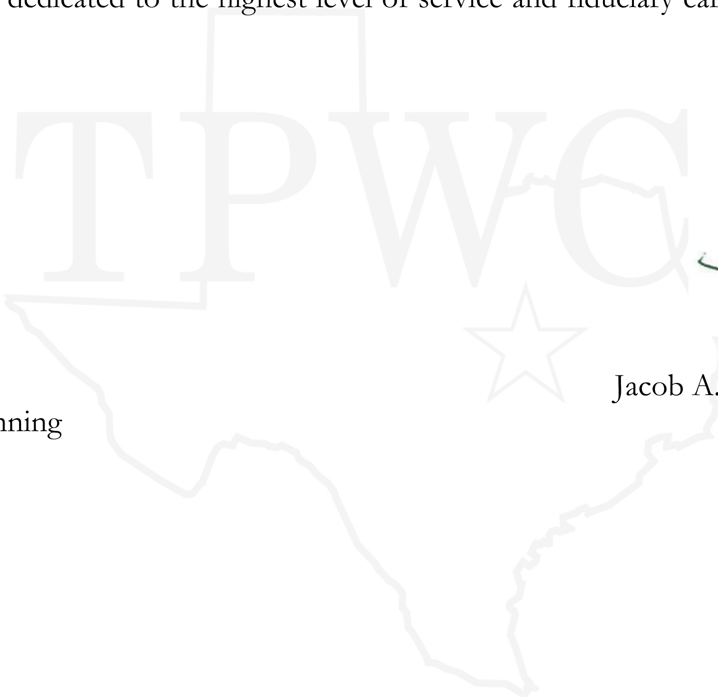
with this obscure statistic, high labor productivity allows profits, and our Gross Domestic Product, to rise without creating inflation. U.S. workers are increasing production of goods and services at a rate 4.7% higher than labor costs are rising.

Tempering all the good news, were the reports from the Institute for Supply Management (ISM) on their Purchasing Managers' Index for services and for manufacturing. In that index, numbers above 50 indicate growth and below 50, contraction. The Services PMI came in at 51.8 suggesting reasonable, sustainable growth, while in the manufacturing sector, the index was reported to be 46.7. The key to understanding those numbers is to recognize that manufacturing is only about 11% of the U.S. economy while about 78% is composed of services. The remaining 11% of economic contribution is composed of business investment, net exports of goods and services, and government spending.

There was good news all around for the first business week in November as the Fed held steady, job creation appeared to return to a good, sustainable rate, inflation seemed to remain within the Fed's target range, and U.S. labor productivity soared. It is good to see our optimistic view from the beginning of this year validated.

Until next week, we remain dedicated to the highest level of service and fiduciary care for you, our clients and sole employers.





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