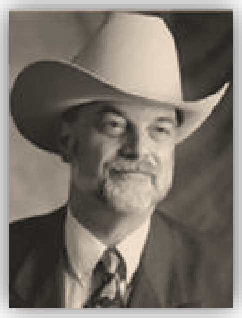

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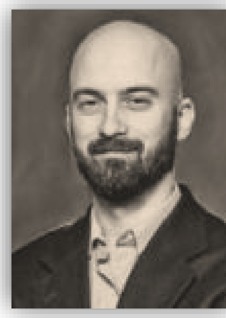

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November 17, 2023

TPWC Market and Economic Update

The Markets

As the markets opened on Tuesday morning, November 14, those who do the daily buying and selling in the U.S. stock market suddenly concluded that stocks were worth a lot more than they had previously thought. The published reason for the sudden shift in opinion was that consumer prices were unchanged in October from the month before and had risen 3.2% rather than the 3.3% expected over the last year. If you are a bit underwhelmed by that news, we are with you. We have been writing for the last several months that the ongoing inflation rate is around 1.2% to 2.4%, or just what the Fed wants, but apparently on Tuesday, the traders on Wall Street woke up and determined that we were right. The S&P 500 (SPX) popped up 1.9% to 4514.02, raising its gains for the month of November to 7.2%. For the week, the SPX rose 2.24% and is now up about 17.6% this year, over 26% from last October, and has more than doubled its value since March of 2020. We must also acknowledge too, that it is still 5.82% lower than it was at the beginning of 2022. The other index we follow, the CRSP US Mid-Cap Value Index, jumped 3.31% for the week to close at 2321.63 but is still down less than one percent this year. It is, though, about 7% higher than it was last October.

The benchmark 10-year U.S. Treasury note ended the week with a yield of 4.44%, taking its rate back to where it was in late September, but leaving it still far higher than iT has been for many years. Shorter-term rates did not join in the party, remaining generally well above 5%. West Texas Intermediate crude oil (WTI) prices seemed to reflect confusion as the price per barrel rose to $80 on Tuesday, then fell to around $73 on Thursday, before ending the week at $75.77.

The Economy

The big news for the week, as we mentioned above, was that from October to November, the Consumer Price Index (CPI) moved not at all. The two-month figures looked almost as benign with prices up only 0.2%. As we have noted before, inflation appears to have retreated to about a 1.2% annualized rate. Both anecdotally, and in the official Labor Department report, retail prices for many goods appear to be falling. In fact, the CPI minus the cost of shelter, i.e., rents, has only risen 1.5% in the trailing twelve months.

If signs of moderating growth in the U.S. economy is good news, and Federal Reserve watchers seem to believe it quite sincerely, then the Bureau of Labor Statistics (BLS) Employment and Unemployment report was reason to celebrate. In about half the states, there were no employment gains while the other half had only minor losses. Only one state had employment gains, Alaska, and those gains there were a mere 0.2%.

As we have so often stated, consumer retail sales are the engine that drives our economy, and that engine appears to be throttling back. The Bureau of Economic Analysis (BEA) reported that October's retail sales fell a seasonally 0.1% in October. That news was cushioned in the same report as they revised sales up to a positive 0.7% for September. Automobile prices fell and retail outlets like Walmart and Target announced price cuts as purchases slowed. Then, on the tail of that news, the Labor Department's Producer Price Index (wholesale prices) came in only 1.3% higher than it was a year ago. Topping the economic picture off, even service prices, which have been leading the way for the past couple of years, also came in with a zero percent increase from last month.

As we have commented before, the long lead on inflation or disinflation can usually be seen in import prices. Some have suggested that it is a bad thing that we buy so much of what we consume from others, but our reply is consistent, nations that are buying more things are, by definition, wealthier than those who are selling. Import prices fell by 0.8% in October after only rising 0.1% in the previous month. In our opinion, the inflation threat that emerged during the pandemic is over.

The current threat, and there is always something, is not to be found here in the U.S. In the European Union (EU), one of our major trading partners, the European Central Bank announced that economic growth there would probably be only 0.6% for all of 2023 and warned that next year's growth would likely be around 1%. Meanwhile, inflation is alive and well in the EU and is running at about 6.5% per year but is forecast to fall to 3.5% next year. The Central Bank president warned that he was almost certain that Europe would be in a recession by year-end. As recently as 2013, the European Union GDP was 91% as large as the US GDP. It is now estimated to have fallen to 65%. Per capita, U.S. GDP is more than twice the size of the EU's.

As we have been reporting for a long time, the U.S. economy is performing exceptionally well and now appears to be moderating to a rate that could be sustainable for the longer-term

Until next week, rest assured that we remain hard at work providing our clients and sole employers with fiduciary service, advice, financial planning, and portfolio management, not to mention what may be the most personal and friendly team of professionals you will ever encounter!

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