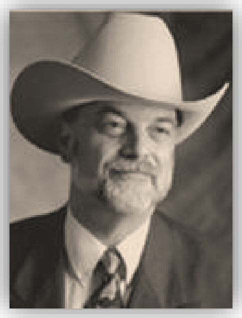

THE PERSONAL WEALTH COACH®

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

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TPWC Market and Economic Update

The Markets

On this, the first day of the last month of 2023, our flawed but venerable market indicator, the Standard and Poor's 500 Stock Index (SPX) closed at 4594.63, up 0.77% for the week. That small rise in value puts the Index up almost 20% this year, about 28% from its low last October, and about 24% higher than it was three years ago. Still, it remains about 4% lower than it was at the beginning of 2022. The other index we follow, which serves to indicate what is going on in the market minus the seven large-capitalization stocks that are driving the returns of the SPX, the CRSP US Mid Cap Value Index, rose a very substantial 2.54% to close out the week at 2399.72. It is now up 2.57% year to date and 10.43% from last October. In both indexes, the rise for the week was primarily on Friday, following some extraordinary economic news. More on that below.

The benchmark 10-year U.S. Treasury note yielding 4.22% as the yield declined 5.6% from last week. The 10-year yield decline was not reflected in the rates being paid by Treasury bills with maturities of one year or less as the one-month T-bill was paying an annualized rate of 5.55%, leaving the Treasury yield curve still firmly inverted. The price of West Texas Intermediate crude oil (WTI) slipped another 1.14% to end the U.S. market week trading at $74.31 per barrel.

The Economy

It is sometimes amazing to us what makes the economic headlines and what doesn't. We think that the biggest news of the last week in November was the revision made by the U.S. Bureau of Economic Analysis (BEA), a bureau inside the Commerce Department, to their earlier first estimate of the U.S. economy's real GDP annualized growth rate in the third quarter of this year. There was an impressive round of gasps when that first estimate came in at 4.9%, but the revised second estimate was even more impressive. The U.S. economy now appears to have been growing at an astonishing 5.2% (annualized) in the third quarter following a 2.1% growth rate in the second quarter! Remember, according to the pundits' forecasts from last year, we are supposed to be in a recession now. In that same report, the BEA also reported that core underlying inflation for the third quarter was running at an annualized rate of 2.3%. In short, the news is that the U.S. economy grew at an astonishing real rate of 5.2% (after subtracting inflation) while the annual inflation rate coasted down to 2.3%. This is the kind of economic performance that would be considered normal in the opening stages of an economic recovery but is exceptional at this point in historical economic cycles.

Then, the BEA released another report, *Personal Income and Outlays, October 2023*. Disposable personal income, that which is what is left over after paying the bills, taxes, and adjusting for inflation, rose 0.3% in one month, an annualized rate of 3.66%. Meanwhile, the Personal Consumption Index, the Federal Reserve's preferred inflation indicator, rose zero percent (0.00%) for the month. Yes, you read correctly, *zero percent inflation!* Prices for goods *decreased* 0.3% while prices for services increased 0.2%. As all that was happening, we Americans increased our spending by 0.2%, at an annualized rate of 2.4%.

So where did all that extra growth come from if consumers are only increasing their spending at around 2.4% per year? If we back off and look at the last four months, consumers, the backbone of the U.S. economy, increased their purchases of goods and services just over 2% in a third of a year. Annualizing that number gives us a real consumer spending growth rate of over 3% per year. At the same time, capital investment in structures increased and imports of goods and services decreased. Since the trade deficit is subtracted from GDP, that is a positive. More than that, investment in structures by both businesses and consumers is a strong indicator that the people who are doing all that investment are anticipating good times ahead for themselves and their businesses.

The bottom line is that it just doesn't get much better than this from a macroeconomic perspective. Yes, we expect higher interest rates to slow things down in the fourth quarter and likely more in 2024, but that slowdown is a good thing as we simply do not have the infrastructure we would need to support a 5% or even 4% annualized growth rate and eventually inflation would return in an overheated economy. On the other hand, it is quite a stretch to imagine a recession anytime soon in an economy with this kind of momentum. It came then as no surprise when two normally hawkish voting members of the Federal Reserve Board announced they were comfortable with leaving short term interest rates as they are and could see no immediate cause to raise them further.

Until next week, we remain your loyal servants and fiduciary advisors, always striving to improve the quality of our service, responsiveness and fiduciary investment management for you, our sole employers.

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

Jacob A. McClure, CIMA®