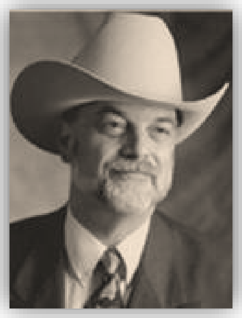

THE PERSONAL WEALTH COACH®

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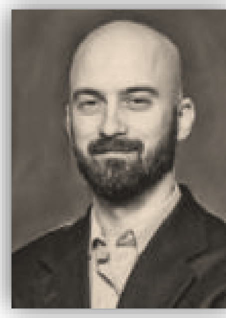

December 22, 2023

TPWC Market and Economic Update

The Markets

After all the headlines about the stock market plunging and then roaring to record highs, one would assume that something big had happened in the last week before Christmas. Instead, the net result as measured by the S&P 500 Stock Index (SPX) was a gain of a mere 0.75%, taking it to 4754.63. During the day on Wednesday, and again early on Friday morning, it did come close to a record, but then traders panicked as the pessimists (bears) started selling for no easily discernable reason other than a desire to not be invested over Christmas with a possible spreading of the war in Southwest Asia and fears of inflation. If you are keeping track of such things, the SPX is now up almost 24% this year, up about 33% since October 2022, and has risen about 27% in the last three years but, remains 0.75% below its record high as 2022 began. Yes, you read that right, 24 of the 27 points the Index has gained in the last three years have all been this year. That is the way stock markets work. This marks the eighth consecutive week of gains in the SPX, the longest such run in five years. Our other followed index, the CRSP US Mid-Cap Value Index, a good representation of what the stock market without its seven largest growth stocks looks like, rose 0.47% for the week and is now up 6.58% this year but is still 4% lower than it was at the beginning of 2022.

On the other side of the market, the benchmark 10-year U.S. Treasury note ended the week almost exactly where it ended last week, yielding 3.90%. Both the longer-term bonds and the shortest of the T-bills were also about where they were last week with the one-month T-bill yielding 5.54% and the thirty-year bond paying 4.05%. West Texas Intermediate crude oil (WTI) rose 2.38% to $73.49 on news of increased shipping costs for oil from Southwest Asia resulting from the shipping attacks on vessels lined up to enter the Suez Canal.

The Economy

Once more, the excitement in the stock market was driven by statements, misunderstanding of statements, and rumors about what the Federal Reserve was likely going to do in the next six months. Most of that was triggered by an unexpectedly benign report on inflation from our beloved Bureau of Economic Analysis (BEA) at the Commerce Department. The monthly Personal Income and Outlays report for November of this year was a delight to read. First, personal income for US workers rose 0.4% in November and has averaged about 3.2% for the last five months. The even better news was that inflation (PCE) for November was *minus* 0.1% bringing the five-month average to 0.16%! If we carefully annualize that rate, as the BEA does each quarter in its report, it means that over the last five months inflation has been running at an annual rate of 1.94%, almost exactly what the Fed has been targeting! It appears to possibly have been fears that November's PCE would come in unexpectedly high but instead it came in low that created the rush to buy on Friday what had been sold on Wednesday.

In that report, it was not only the good news that inflation has fallen into an even deeper sleep that was important. The news that workers (read "consumers") who are the driving force for good or ill in the U.S. economy, have been consistently seeing a gain in their collective income at an annualized rate of about 3.91% while inflation has declined to under 2%. The difference between those two numbers, almost 2% per year, is almost exactly the sweet spot the Fed has been shooting for. For the U.S. economy to grow at what is generally accepted to be its maximum long-term capacity, consumers need to have about 2% more money to spend each year, after subtracting inflation. At least from a theoretical macroeconomic view, it just doesn't get any better than this!

Then, as if that combination of news was not enough to get the juices of any macroeconomics geek flowing, the University of Michigan reported that their consumer sentiment survey increased to a five-month high of 69.7 from last month's 61.3, the largest monthly rise since 2005. The centerpiece of that increase was consumers' collective belief that cost of goods and services (inflation) would rise only 3.1% over the next year and average 2.9% over the next five to ten years. Inflation, like our economy, is mostly driven by consumers, and when consumers anticipate higher inflation, they tend to buy things in larger quantities and sooner than they otherwise would, creating a surge in demand that pushes prices up, a self-fulfilling prophecy. The great fear in the Fed and among economists is of that behavior and belief system feeding on itself as prices rise because people expected rising prices, which causes them to buy even more and faster, generally with borrowed money, creating an inflationary spiral. Then, when they finally run out of credit, those same consumers suddenly stop buying, creating a recession, or worse.

Once more our report is that inflation, if not dead, is in a very serious coma and the U.S. economy is in as good a shape as we have ever seen it.

Radio

All good things must come to an end, as so it is with our 27-year run on KTEM 1400AM here in Central Texas. This Saturday will mark the last live broadcast from 10:00 until noon, Central Time on that venerable radio station. Nest week, The Personal Wealth Coach radio show will be broadcast, but it will be an edited, produced, best of TPWC, rather than a live broadcast. Fear not though, we are not going away! Instead, we will be recording bite (or byte, if you prefer) sized discussions between the two bald, bearded, economics geeks here at The Personal Wealth Coach and posting them as podcasts.

Meanwhile, have a very delightful holiday, and remember the reason for the season!

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