THE PERSONAL WEALTH COACH®

An SEC Registered Investment Adviser

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December 29, 2023

TPWC Market and Economic Update

The Markets

On the last trading day of 2023, the S&P 500 (SPX), our stalwart if flawed indicator of market values in the U.S., eked out a weekly gain of 0.32% to close at 4769.83, up over 24% this year, 33% since last October, and about 27 percent over the last three years. For all those positive numbers, it remains about half a percent lower than it was in early January of 2022. Our other followed equity index, the CRSP US Mid-Cap Value index, closed the week and the year at 2506.82, up 0.54% for the week, 7.15% year-to-date, but still about 3.5% lower than its record high back in January of 2022.

The benchmark 10-year Treasury note ended the week and year yielding 3.88%, near the lowest rate across the entire yield curve. Short-term rates remained much the same as last week, as did longer-term bonds. Ultra-short-term T-bills were yielding around 5.4%, annualized, while the longer-term Treasury bonds paid as much as 4.2%. West Texas Intermediate crude oil (WTI) slipped down about 3.5% to end the week at $71.32, about 3% below where it was last week.

The Economy

There is generally not a lot of economic news to report in the last week of the year, coming as it does between Christmas and New Year's Day. Certainly, there was a bit of what we consider noteworthy data. Retail sales through December 24 were up 3.1% over last year, a good omen by almost any standard of such things. Manufacturing, at least according to the Richmond Fed, was still decelerating from its wild run over the last two years. Services, at least those in Texas, continued to ratchet up. None of that is new, but continues a trend we have seen since the stampede to buy goods (herein often referred to as "stuff") during the pandemic began to wind down, and we consumers have shifted back to services to spend our money.

As 2023 draws to a close, it is a good time to try to put things in perspective and consider what may lie ahead. The major trends in the U.S. and world economies are still primarily reactions to the pandemic and large-scale consumer retreat from services like dining out, travel, and entertainment outside the home. That reduced spending on services, combined with far more time at home, resulted in a massive increase in demand for goods, primarily via internet shopping. At the same time, the primary supplier of goods globally, the People's Republic of China (PRC), began a severe lockdown of its population. As a result, prices for those much-desired goods began to rise at about 10% per year. Compounding the issue was that our infrastructure could not support the level of demand that arose.

As the pandemic tapered off, the resulting sudden shift in demand for services was immense. Consumers, deprived of restaurant meals and theater movies, among many other things, went on a binge so that even as goods prices leveled off, services businesses, having scaled back during the lull, were overwhelmed, and again, prices went up. Imports of goods declined, as did domestic manufacturing. We appear to be at the tail end of that part of the cycle as we end 2023.

The Fed, of course, raised interest rates to dampen demand. The degree and speed of those increases historically would have generated a severe recession, but that didn't happen. Instead, even as the Fed imposed its highest interest

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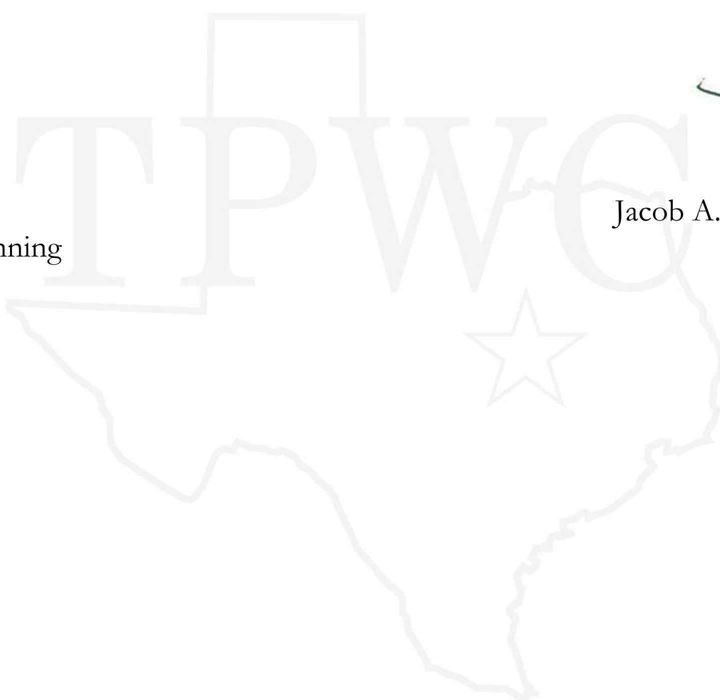
rates in this cycle, the U.S. economy grew at an annualized rate of 4.9% in the third quarter after a 2.1% rate in the second quarter. Monthly inflation has been averaging less than 2% for the last five months, and the forces of supply and demand seem to have come into balance. The consensus for the last quarter is that we will see something above a 2% growth rate. That high growth came and is coming because we have an astonishingly low unemployment rate of less than 4% and, as an economy, have seen wage growth matching or exceeding inflation.

In short, the dramatic interest rate cuts, Federal Reserve bond purchases, and stimulus checks have not only prevented a severe recession but also propelled us into sustained economic growth higher than would probably have happened if there had been no pandemic. That is not a bad way to start a new year.

Until next week, Jeff and Jake will be in faraway places, but your always vigilant and loyal Personal Wealth Coach team will be on duty and ready to serve you in any way they can. Feel free to call, email, or come by in person, and they will be ready and willing to listen and serve.



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