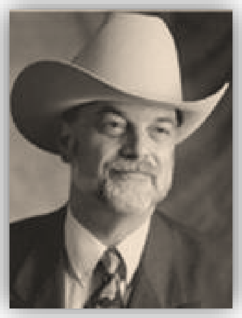

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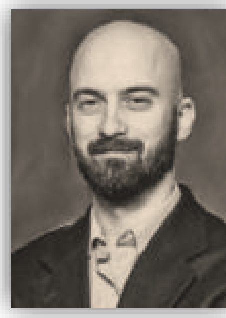

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January 5, 2024

TPWC Market and Economic Update

The Markets

The first market week of 2024 launched the new year on a down note as the S&P 500 Stock Index (SPX) fell 1.52% to close at 4697.24. There seems to be an inordinate amount of fear that asserts itself each time the SPX approaches its record-high closing price set in the first week of 2022. Professional stock traders tend to be a superstitious lot and do exhibit some interesting behaviors around certain levels of an index despite that particular number having almost nothing to do with profits (earnings) or much of anything else. It is now 2% lower than that all-time high, about 22% higher than at the beginning of 2023 and 27% higher than it was three years ago. Our other market indicator, the CRSP US Mid-Cap Value Index, closed at 2490.38, down 0.66% for the week, down just over 4% from its high in the first week of 2022, but about 6.45% higher than when 2023 started.

The benchmark 10-year U.S. Treasury note ended the week yielding 4.05%, still around the low end of its recent averages, with the shorter-term Treasuries as well as the longer-term bonds almost unchanged for the week. West Texas Intermediate crude oil was selling at $73.89 as the U.S. business week ended, like the Treasury note, well within its recent trading range. In short, other than a minor decline in the SPX, not much happened in the markets this week.

The Economy

As with last week, the economic reports issued in the first week of the year are on the thin side. Because of the calendar change, it is almost as if we start each year with a clean slate. There were some indicators, and if we are indeed starting with some degree of a clean slate, they suggest we are starting off the new year well.

This Friday, the 5th, our beloved Bureau of Labor Statistics released their monthly Employment Situation Report. The consensus among pundits and prognosticators alike was that unemployment would rise toward what they historically have theorized was "full employment" at 4.0%, and we would add around 140,000 jobs for December. Instead, Employment increased by 216,000, the unemployment rate held steady at 3.7%, and little else changed. In short, the U.S. economy ended the month with 216,000 more people gainfully employed, earning, and spending most of about $12.7 billion in annual income more than last month. Multiply that figure by twelve months of job creation at that rate, and the economy has nearly $159 billion more dollars moving around in a year. In other news, the San Francisco Fed estimates that U.S. consumers have about $433 billion more in savings than they would have had there been no pandemic and that the "excess" savings are spread across the spectrum of annual income levels fairly evenly.

If we assume that the excess savings will be spent in 2024 and add in employment growth continuing as it has the past six months, we wind up with a boost to the U.S. GDP of about 2.15%, not counting increases in productivity or other factors. Yes, we know that is an extremely rough way of looking at economic growth, but it does put things in perspective for the moment.

In other news, the Institute for Supply Management (ISM) published its report on the Purchasing Managers Index (PMI). "Economic activity in the services sector expanded in December for the 12th consecutive month as the Services PMI® registered 50.6 percent, say the nation's purchasing and supply executives in the latest Services ISM®

Report On Business®. The sector has grown in 42 of the last 43 months, with the lone contraction in December 2022." Given that the services sector is the largest element in the U.S. economy, that says a lot.

The U.S. is quite unusual among the world's economies. Most of the rest of the world is at the mercy of its foreign customers, the largest of which, by far, is us (or the U.S., if you prefer). There is an old saying in analyzing the world economy, "When the United States of America sneezes, the world catches a cold." We are the world's largest set of international customers and the world's largest exporter of money. There are those who see that as dangerous and have warned for at least the past half-century that such an imbalance must certainly and imminently lead to disaster for America. In fact, by any reasonable measurement method, the U.S. economy remains the most stable and fastest growing and certainly the largest of any major economic player.

The bottom line is once again that the U.S. economy is healthy and growing at what appears to us to be a now reasonable and sustainable rate. Yes, there are things that could derail that, as there always are, but we continue to see no evidence supporting an economic contraction in the near future.

Until next week, we may be out of town, but the highly skilled and dedicated TPWC team remains on duty, ready and able to answer your questions and provide any support you may need.

Your obedient servants and fiduciary investment managers and advisors,

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