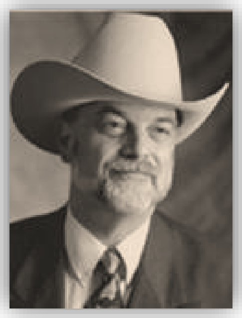

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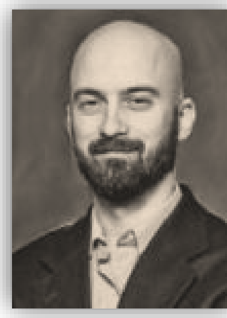

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TPWC Market and Economic Update

The Markets

Our dearly beloved S&P 500 Stock Index (SPX) once more shivered and shook with fear as it approached its former record high point of 4796.56 set on January 3, 2022. It briefly rose above that magical number on Thursday shortly after the opening but retreated after sellers outsold the buyers. On Friday morning, it again rose, this time to a neat 4800, but was then driven back down by the sellers. The available news looked better than ever, but stock traders are a superstitious lot, and because they piled on as the SPX rose in January 2022 and then got burned, they are loath to cross that mystical line again. The fact that corporate earnings and the U.S. economy have both risen considerably since that fateful day in 2022 makes no difference to their animal spirits.

The SPX rose 1.84% for the week to close at 4783.83 and is now a mere 0.27% below its record high. Since this time last year, it is up 19.62%, about 34% higher than it was during the October downturn in 2022, and has gained about 25% over the last three years. The CRSP US Mid Cap Value Index, our indicator of what the market looks like minus the seven tech stocks that now dominate the S&P 500, fell 0.40% for the week to close at 2480.37, leaving it up about 18% from a year ago and up 16.17% from this time three years ago.

The benchmark 10-year U.S. Treasury note closed out the week yielding 3.96%, little changed from last week. The same applies to both the short-term bills and longer-term Treasuries. For all the talk and angst about interest rates that seem to dominate stock market fears and hopes, the bond market is just sitting there seriously inverted but otherwise quite unmoved. The same could be said of the oil markets. West Texas Intermediate crude oil (WTI) slipped a mere 1.5% to $72.76 despite much hand-wringing and alarm from the press over the prospect of Houthi and Iranian attacks on oil tankers.

The Economy

The economics headlines for the week centered around the Bureau of Labor Statistics (BLS) monthly release of its first estimate of the Consumer Price Index (CPI) on Thursday, an inflation indicator that reportedly the Federal Reserve and most professional economists consider to be a less than accurate set of data, but which still manages to make the front page of financial news. Said CPI is then generally reported in the media based on what happened a year ago rather than what it says about inflation today. What it really announced is that the prices of goods and services purchased in these United States of America rose a seasonally adjusted 0.3% last month after rising 0.1% in November and 0.0% in October. That leaves the trailing CPI over the last quarter rising at an average rate of about 0.13% per month, or about 1.57% per year. The popular press largely ignored those readings and instead fixated on the 12-month total of 3.4%, which has far more to do with where prices were a year ago than where they are headed today.

The indicators that high inflation is dead were then reinforced on Friday as the BLS reported that the Producer Price Index for final demand (PPI), in essence, wholesale prices, also fell 0.1% last month, rounding out the year with a rise of only 2.5% after rising 6.4% in 2022. In yet better news, if we remove the food, fuel, and trade services elements from that PPI, it too is rising at about 1.24% per year. On Thursday, the Federal Reserve Bank of New York reported that among consumers it surveyed last month, the median expected annual inflation had come down to 3%. As we

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have noted before, inflation becomes persistent when consumers believe it will continue into the future. If they expect prices to go up, they accelerate their buying while prices are low, which increases demand and, in turn, causes prices to rise in a self-fulfilling cycle.

Contrast our relatively healthy small inflation rate with what is happening in China, and things get a little more interesting. The China wholesale price index has now been dropping for 15 months, and consumer prices have been falling for the last three months. Economists at Morgan Stanley called that price decline the "longest and deepest" deflation in China since 1998. The concern in the West is that the government there is stimulating manufacturing production, but domestic demand continues to fall. That means that there are a lot of goods sitting unsold in China that are likely to be "dumped" as underpriced exports, which could easily set off an escalation in the trade war.

The bottom line, both domestically and globally, remains much the same. The U.S. economy is chugging along pretty much as its maximum sustainable capacity, China's economy is slipping backward, and the Europeans are teetering on the edge.

Do know, though, that we are steady at work with the return of Jeff and Jake from their adventures in faraway places, continuing in our endless efforts to be the very best, most personal, and most caring fiduciary investment advisors, portfolio managers, and financial counselors in the land!

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

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