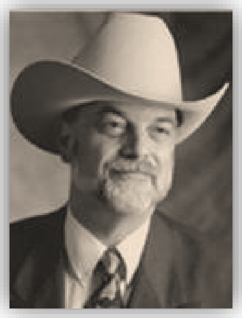

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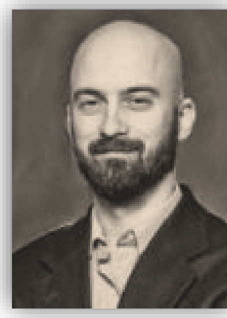

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January 26, 2024

TPWC Market and Economic Update

The Markets

In this last full week of January 2024, the S&P 500 Stock Index (SPX) our prime if flawed indicator of the level of the U.S. stock market, put on quite a show. It closed at a lofty 4890.97, up 1.06% for the week, bringing the year to date rise to 2.54%. That lumbering, venerable index is now just over 20% higher than it was a year ago, 30% higher than it was three years ago and on Thursday of this week, hit a fifth consecutive closing high before slipping back 0.07% to end the week. The other index we follow, the CRSP U.S. Mid-Cap Value index, which tends to give some idea of what is happening in the market if we exclude the "Magnificent 7" super-large cap tech companies that currently drive most of the SPX's level, rose to 2483.16, up 1.03% for the week, but is still about 6% lower than the record high set in early 2022. It though, is up about 20% in the last three years, and has risen about 40% over the last five.

On the other side of the securities markets, the 10-year U.S. Treasury note ended the week yielding 4.15%, right where it was last week. Short-term Treasuries maturing in less than one year again were the highest yielding with the one-month T-bill paying an annualized rate of 5.54% while the 30-year Treasury bond only offered 4.38%. West Texas Intermediate crude oil (WTI) slipped upward to $78.23 per barrel, a rise of about 6.6% but well within its recent trading range.

The Economy

To say the last full week in January was full of major economic news would be to make an historic understatement. The clearest message was and is that the U.S. economy is not behaving like it typically and historically has since World War II. Since that war, and probably before it although we weren't keeping sufficiently accurate records to be sure, our economy was dominated by the business cycle and as time went by we got better and better at understanding it. Beginning with the financial crisis of 2008-2009 something changed. Then, post pandemic, it has become obvious that the now highly documented cause and effect relationship that economists have come to assume was as immutable as Newtonian physics has changed dramatically. The U.S. economy is behaving far more like quantum than Newtonian Physics.

The biggest news was that the most widely forecast recession in history didn't happen in 2023. On Friday, the Bureau of Economic Analysis (BEA) reported that the U.S. economy grew at a 3.3% annualized rate in the fourth quarter. That burst of growth raised Real GDP growth to 2.5% for the year. Yes, I know that many news sources announced and continue to proclaim that the year's real growth was 3.1%, but they are wrong. We receive the official notification from the BEA, and on the second page of that notice, it states, under, "GDP for 2023," "Real GDP increased 2.5 percent in 2023…" Still, considering that virtually all forecasts (except ours) called for a recession, that is an impressive number. Note here that our infrastructure simply will not support ongoing growth at that rate. Best estimates are that we can only average around 1.7% per year barring some major changes in transportation technology.

Then the second shoe dropped as the BEA released its Personal Income and Outlays report for December 2023. Personal Income increased $60 billion, 0.3%, or about 3.6% annualized, as did disposable personal income, while personal consumption expenditures increased $133.9 billion, 0.7%. Despite that significant increase in consumer spending, the PCE Price Index (PCI), the inflation measure favored by the Federal Reserve, only rose 0.2% for the month and 2.6% for 2023. Over the past five months, real inflation, as measured by the PCI, has averaged 0.18%, which when annualized comes to 2.18%. Considering the Federal Reserve has set a target inflation rate of 2% per year, it appears we are very close. On top of those numbers, it appears that we are also managing to save about 4% of our income. For reference, just before the pandemic, American's average saving rates were negative numbers, meaning that consumers were spending more than they were making.

All of those numbers are wonderful, but they reflect what happened last month, and the past is definitely not the future. On Wednesday though, S&P Global released its Flash US Composite PMI (Purchasing Managers' Index) giving us a glimpse of the future. The U.S. Composite PMI, a report on which way purchasing managers see business going over the next six months or so, rose to 52.3, a 7-month high, from last month's 50.9 on a scale where numbers above 50 indicate expansion and below indicates contraction ahead. The increase was primarily in service providers.

Once more, the U.S. economy presents itself as robust, healthy, and growing at a probably unsustainable rate. More, we see no indications of a major slowdown. We do think the growth rate will moderate in 2024 simply because it must. We only have so much capacity on our highways, railroads, and airlines and we are nearing full utilization, but, for the moment, it just doesn't get much better than this.

Until next week, be assured that we are doing our best to do our fiduciary duties, being square, and obeying the scout law. (Some of you will recognize that old oath.) As always, we welcome your questions, comments, and thoughts.

Your obedient servants,

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