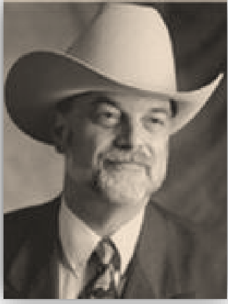

THE PERSONAL WEALTH COACH®

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TPWC Market and Economic Update

The Markets

The S&P 500 Stock Index (SPX) rolled out of a funk on Wednesday generated as Fed Chair dumped cold water on an imminent short-term rate cut soaring on Thursday and Friday to 4958.61, up 1.38% for the week and yet another record high. That end of week surge leaves it 3.96% higher than where it began the year and up nearly 20% from this time last year, not to mention 3.38% higher than its record close in January 2022. Our other followed index, the CRSP US Mid-Cap Value Index, providing us with some idea of what is happening in the market outside of the "Magnificent 7" large growth high-tech stocks that are driving the SPX, crept upward 0.25% since last week to 2489.48 and remains about 1% lower than where it was at the beginning of the year and about 4% below its record close in early 2022. We are definitely seeing two very different markets with the Mag 7 roaring toward the moon while the rest of the stock market continues to slog forward.

The benchmark 10-year U.S. Treasury note yield slipped downward to 4.03%, leaving the yield a bit lower than last week, but substantially higher than mid-day Thursday, when it brushed with 3.8% before bouncing back up above 4%. If there is anything substantial to note about mid-term interest rates, it is that they have been amazingly stable over the last twelve months. Extremely short-term Treasury yields continue to hover around 5.5%, leaving the yield curve extremely inverted as it has been for about a year. It clearly still bugs a lot of folks that the most inverted yield curve many have seen in their lifetime has failed to produce what was and is probably the most widely forecast recession in American history. West Texas Intermediate crude oil (WTI) fell all week to end the U.S. workweek at $72.21. Once more the pundits are unhappy that missiles hitting oil tankers have failed to jack up oil prices. Yes, the supply is being constrained by events in Southwest Asia, but the bigger news is that demand is down largely because of China's economic woes.

The Economy

The surprise news on Friday that U.S. employers hired 353,000 more workers than they terminated in January came as one of those reverse shocks that confuse market watchers as well as stock traders. That was about twice the expected hiring rate and was generally received as eliminating any hope that the Federal Reserve would cut interest rates in March. Adding insult to injury, at least from the backward view that good economic growth news is bad news, the Bureau of Labor Statistics (BLS) also raised December's net new hiring rate from the earlier reported 216,000 to 333,000. The BLS also announced that unemployment held steady at 3.7% instead of rising to the expected 3.8%. Wages too were up in the report, rising 4.5% from a year earlier. The Fed Chairman, Jerome Powell summed up the situation quite well by saying at his news conference, "This is a good situation. Let's be honest. This is a good economy."

Those looking and hoping for bad economic news were further disappointed by the BLS on Thursday too. Nonfarm business sector labor productivity increased 3.2% in the fourth quarter of last year. Output rose 3.7% while hours worked only were up 0.4% and unit labor costs rose a mere 0.5%. Productivity is the key element in creating economic growth without growing inflation. If workers can produce 3.7% more goods and services while receiving only a half percent increase in total compensation, then job and wage growth do not create inflation.

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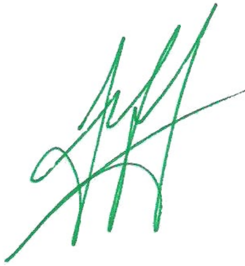
Evidence keeps coming in indicating that our economy is not only doing well but is likely to keep getting better. The Conference Board Consumer Confidence Index, published as January came to a close, showed a big improvement from December, rising from 108 to 114.8 in what normally is a dreary month. In fact, every indicator, including our informal truck count on I-35 here in Central Texas, points to a healthy and growing economy with no signs of a slowdown.

Meanwhile, the U.S. Treasury announced it would be offering $121 billion in new Treasury securities at its auctions scheduled for next week. $105 billion will go to refinancing maturing securities and $16 billion will be new debt. It estimates that it will need to borrow $760 billion in the first quarter of this year, and $962 billion in the first half of fiscal year 2024. For the year from July 2023 to June 2024 the total supply of outstanding marketable Treasury securities will have increased by about $2.7 trillion. While the totals may be disturbing, the practical impact is that the supply of Treasury securities is increasing while the demand for said Treasury securities is not keeping pace. China is taking in less dollars as its economy slows and the same can be said for Europe. An increased supply with no rise in demand results in the price of the product declining. Declining bond prices cause interest rates to rise. As a result, we continue to expect longer-term rates to continue to creep upward and for bond portfolios to see declines in value. Some aspects of commercial real estate are also likely to suffer in this environment.

Until next week, we remain faithfully at our posts working diligently to provide you with fiduciary, personally tailored investment and financial advice, portfolio management and five-star service.



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