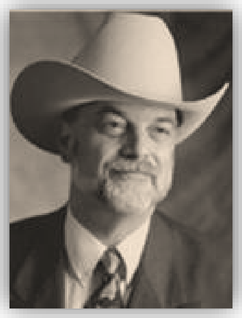

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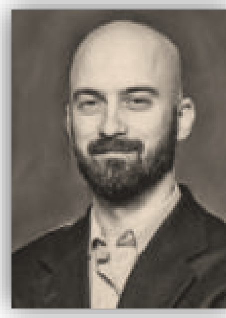

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February 16, 2024

TPWC Market and Economic Update

The Markets

Our dearly beloved, and quite venerable, if often misleading index, the S&P 500 (SPX), did fall a bit for the week ending on February 16, 2024, but given the stream of less-than-optimal economic news, the impressive thing was that it generally held its ground. The index finished the week down 0.42% at 5005.57, leaving it up almost 5% this year and up 22.72% from this time last year. Our other followed index, the CRSP US Mid Cap Value Index, serving as an indicator of the market minus the Magnificent 7 large-cap, high-tech stocks *rose* 0.87% to 2512.93, but is still down less than one percent for the year. The stock markets were, as they have been for some time, focused on the Federal Reserve and its interest rate-setting activities.

The benchmark 10-year U.S. Treasury note yield continued to inch slowly higher, ending the week yielding 4.30%, up from 3.88% as the year began. West Texas Intermediate crude oil stood at $79.17 per barrel, a rise of about 3% for the week, reflecting the strong demand generated by the unexpected ongoing economic growth in the U.S.

The Economy

Some weeks, like last week, have few scheduled economic news releases but others, like the one ending on February 16, overflow with sometimes hard to interpret news. The first and commonly less than accurate inflation report for January was released by one of our favorite government agencies, the Bureau of Labor Statistics (BLS), followed by the Export and Import Price Indexes, and the Producer Price Index. All those reports have bold warnings that they are only an "advance estimate" and could be changed substantially anytime in the next several months, as well as notifications that the estimates may be off by sometimes more than the total. That in no way keeps the news and political media from jumping on them, examining the numbers under a metaphorical microscope, and then proclaiming their predicted results from those numbers.

Let's start with the Consumer Price Index (CPI) released on Tuesday, the 13th. The BLS reported that their seasonally adjusted, advance estimate of U.S. inflation rose 0.3% in January, bringing the unadjusted 12-month CPI to 3.1%. More alarming was the so-called "core" CPI, which does not include the volatile food and fuel categories. It rose 3.9% from a year ago. Stock and bond indexes reacted immediately by plunging. Then, people began to look more carefully at the numbers and disclosures, and the markets began to recover. The reported rises in prices stood in contrast to the Census Bureau's report that monthly retail sales declined 0.8%. As a side note, that same Census Bureau report adjusted December's retail sales to a 0.4% rise and warned that their estimates had a margin of error of + or – 0.8%, about the same as the CPI report. It is important to realize that we really do not know what is happening in the economy until about three to six months after it happens. When a reported statistic is less than or equal to the margin of error, it mostly qualifies as "noise." Economics is not physics, no matter how much its adherents want it to be.

It is also important to look at all the data, both immediate and recent, and then go outside and, as we say, "count trucks." So, let's move on to other reports. The same beloved BLS released another report on Friday that is little reported, but generally far more accurate and predictive than the famous CPI. The Producer Price Index, which is in essence a measure of wholesale prices paid by retailers, also increased 0.3% in January after declining 0.1% in

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December and advancing 0.1% in November, *seasonally adjusted*. Notably that increase in January was largely driven by a 2.2% increase in the cost of hospital outpatient care, an element unlikely to set off an inflationary sprial. Also noteworthy was the reported 0.2% *decrease* in the price of final demand goods. It is hard to imagine a resurgence of inflation while the wholesale price of goods is declining. Meanwhile, the interstate highway system is still jammed with trucks, strongly suggesting that commerce is still roaring along at a growth rate that is near our maximum sustainable level.

It is a different story across most of the rest of the world. Both the United Kingdom (England) and Japan officially reported a second quarter of contracting GDP, the classic definition of a recession, while Germany, the traditional growth engine of the European Union, remains in a recession. The German Purchasing Manager's Index was at 45.5 suggesting that their economic slump may have at least months before recovery is likely to occur. The Commerzbank Chief Economist forecast the German economy will contract by 0.3% in 2024 while Euro inflation was running at about 3.4%.

In short, American exceptionalism appears to be alive and well as our economy rolls on with what appears to be a full head of steam and plenty of momentum.

Until next week, we remain your faithful fiduciary servants, always ready to provide unbiased advice, portfolio management, and personal service!

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