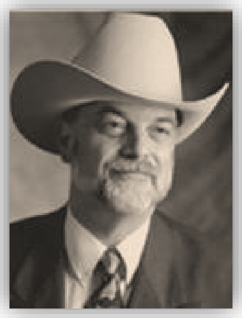

THE PERSONAL WEALTH COACH®

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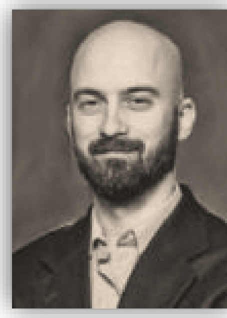

March 8, 2024

TPWC Market and Economic Update

The Markets

Our dear old S&P 500 Stock Index (SPX) in its role as the marker for the U.S. stock market, took a breather this week, falling 0.26% to a still, to us, astonishing level of 5123.69. That small retreat leaves the SPX up 7.42% so far this year, up about 31% from this time last year, and 32.21% higher than it was three years ago. Once more we are reminded that nearly all the growth in the SPX for the last three years occurred in the last 12 months. Our other followed index, the CRSP U.S. Mid-Cap Value Index rose 1.55% for the week to 2613.96, putting it 3.94% higher this year, nearly 12% higher than this time last year and up 14.45% from three years ago.

The U.S. Treasury 10-year note finished the work week yielding 4.09%, about 2.4% lower than last week, but about 5.4% higher this year. The highest yields continued to be found in the shortest maturities at about 5.5% while the 30-year bond was paying only 4.26%. West Texas Intermediate crude oil (WTI) slipped a bit to $77.90 per barrel, about 2.6% lower than last week, but still up 8.7% this year.

The Economy

For those without long memories, it might be good to look back a year to when there was a near-universal prediction of a major recession that would hit the American economy in the third or fourth quarter of 2023. Instead, both productivity and production took off like a Space X rocket. The pundits and many politicians then warned that the recession would hit late in the year. When again the economy ignored them, they called for the recession to devastate our economy early in 2024. We looked around at the real world as well as at the economic data from across the country and never saw any sign of a coming recession.

The Federal Reserve's Beige Book is one of the most accurate and respected reports about the state of the U.S. economy. In the latest version released on Wednesday, the lead sentences announced that 2024 began with continued economic growth, employment growth, and relatively low inflation. On Thursday, the Labor Department's U.S. Bureau of Labor Statistics (BLS) produced their revised fourth quarter Productivity and Costs analysis. The lead line in that report announced that nonfarm business sector labor productivity was increasing at an annual rate of 3.2%. It noted that compensation rose too, but only a fraction as much as production. The report also noted that there was a slowing in the manufacturing side of the economy and an acceleration in the services sector. It went on to provide a third estimate of productivity growth in the third quarter, revising it to 4.7%.

For the record, those numbers are phenomenal. Long-term average productivity gains in the United States have been running around 1.3% per year. Oddly, productivity gains tend to come in economic downturns as companies learn to produce more goods and services with fewer workers and have cut expenses. This time around though, the productivity gains surged even as our GDP grew at an exceptionally high rate.

Of course, there remain those who are proclaiming that the impressive growth in production, productivity, and wages is a temporary blip contrived by the government and we are actually in a slump. Unfortunately for them, the ISM Nonmanufacturing Index, produced by the non-governmental Institute for Supply Management came out this week as well. Remembering that most of our economy is "nonmanufacturing", it is very significant to read that the Index is now at 52.6 on a scale where numbers above 50 signify expansion (growth) and below 50, contraction. New orders and business activity grew at a faster pace than in January. The business activity score, a key element, was reported at 57.2 while new orders, generally an excellent predictor of the economy's direction over the next six months or so, came in at 56.2. The only metric that appeared to be contracting was inventories, and that is a good sign, suggesting better growth in the future.

Confirming those numbers, the BLS then reported on Friday that the U.S. economy added a net 275,000 jobs in February, considerably more than the 198,000 that generally were forecast, even as wage growth cooled down to a sustainable level. It also reported that unemployment rose to 3.9% as a rush of new workers, composed primarily of women and young people entered the jobs market.

Once again, the bottom line is that unlike most of the rest of the world, the U.S. economy is robust and healthily growing at an amazing rate. Europe continues to have higher inflation combined with an economy at or in recession while the Chinese economy continues to look stressed. While we debate on how to slow things down, the rest of the world is trying to get things going again. This is not a bad place to be.

Until next week, know that we are hard at work as your fiduciary building and maintaining your investment portfolios, ready to assist you in any aspect of your investment and financial life, and striving to be the very best servants to our clients we can be.

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