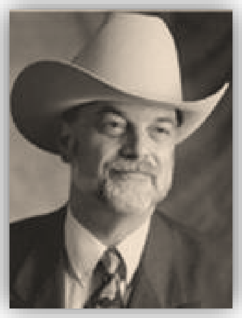

THE PERSONAL WEALTH COACH®

An SEC Registered Investment Adviser

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TPWC Market and Economic Update

The Markets

Our beloved old and perhaps a bit senile S&P 500 Stock Index (SPX), continuing to serve as the public face of the U.S. stock market, closed out the week at 5117.09, down 0.13%, or, in other words, about where it was last week and the week before. The shuffling SPX though is now 7.28% higher this year, and an astounding 29.21% higher than a year ago. Interestingly, it is now 29.13% higher than at this date three years ago, meaning that it has made all its gains in the last three years in the last 12 months. For those who like tracking annual average compound returns, that is about 9% per year for the trailing three years. As inflation has averaged 5.3% over that same period, the real return was about 4% per year when we throw in the dividends, which is very close to the real average annual return of the broad stock market going back decades. Our other stock market indicator, the CRSP US Mid-Cap Value Index fell 0.73% for the week to 2594.80, but is up 3.18% year-to-date, and is 15.26% higher than a year ago.

On the debt side of the market, the benchmark 10-year U.S. Treasury note ended the business day on Friday yielding 4.31% up about 5% from last week's 4.09%, continuing a slow increase in longer-term interest rates. Once more though, the highest interest rates were in the less-than-six-month maturities with the one-to-three-month T-bills all yielding around 5.5%, annualized. West Texas Intermediate crude oil (WTI) ended the US market week at $81.04 per barrel as it too crept slowly upward.

The Economy

Once more, the headline economic news for the week that ended on March 15 was about what the Federal Reserve may or may not do in the light of new information about inflation and the strength of the American economy. First, the Labor Department's Bureau of Labor Statistics (BLS) reported that US employers added 275,000 employees in February, about 77,000 more than expected, although it did reduce January's new job numbers by 24,000. That puts the three-month average at 265,000, an annualized increase of 3,180,000 workers, or about 2% of the workforce. Why is that a big deal? If we presume that the newly hired workers are exactly as productive as the existing workforce, that rate of hiring increases the U.S. GDP and the cashflow available to families by that same 2%. If we further assume that instead of the over-the-top productivity gains, we have seen in the past couple of years, we drop back to our long-term average of about 1.7%, it will increase our GDP by a whopping 3.7% over the next twelve months. There are a lot of assumptions there, but there is no sign of the much-prophesized recession in those numbers. What is there is evidence that there will be more money for consumers to spend and therefore the potential for further inflation.

Then, on Tuesday, March 12, the BLS hit us with its monthly Consumer Prince Index Summary (CPI). For the month of February, seasonally adjusted inflation rose 0.4% after rising 0.3% in January. The trailing three-month average CPI then came to 0.3% or at an annualized rate of 3.66%, well above the 2% target of the Federal Reserve. For the trailing 12 months the CPI has risen 3.2%. Worse, if we pull out the often-volatile food and fuel categories to arrive at the so-called "core" inflation rate, it was even higher, running at 3.8%. But the BLS was not done with us. On Thursday it released the Producer Price Index, a measure of wholesale prices. To cut to the chase, wholesale prices too have a three-month trailing average rise of about 3% per year. Finally, later the 14th, the Census Bureau put the icing on the cake as it announced that retail spending by consumers rose 0.6% in February, seasonally adjusted but not adjusted for inflation. That number, after subtracting inflation for the month, was consistent with the trailing 12 month rise in retail spending of about 2%.

What do all those numbers mean? The future is always uncertain, but the trend is reasonably clear. We are in an economy where 3% inflation seems to be the norm, as well as a growth in our GDP of something around 3.7% per year. Note that inflation is subtracted from the growth before reporting the GDP. Our conclusion from that is the Federal Reserve is not going to be in any hurry to reduce short-term rates and longer-term rates are likely to continue to rise. In an interesting sidelight, consumer credit levels appear to have leveled off with default rates lower than before the pandemic. Since credit balances are not adjusted for inflation, the current 1.7% annual growth rate in consumer credit balances is, in real terms, a steady reduction in debt. In short, we again report that the U.S. economy is still barreling along under a full head of steam with no red flags flying anywhere.

Until next week, we wish you a safe and pleasant experience as we leave the rigors of winter behind as we continue to provide you, our clients and sole employers, with the best fiduciary portfolio management, planning, and service possible.

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