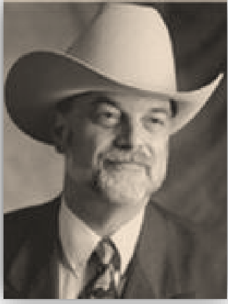

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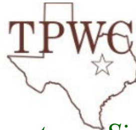

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TPWC Market and Economic Update

The Markets

The old S&P 500 Stock Index (SPX) was in a celebrative mood for the market week that marked the beginning of spring. Feeling lighthearted at that favored season's first day it soared as high as 5260 before ending the week on a less flighty level of 5234.18, but still turned in a week's gain of 2.29%, leaving it up 9.74% this year and an astonishing 33% from a year ago. Interestingly enough, the Index is also up about 33% from three years ago, once more illustrating how markets create wealth in a very uneven manner. Our other followed stock market indicator, the CRSP US Mid Cap Value Index, turned in a reasonable gain of 1.75% for the week, closing at 2640.16, up about 5% so far this year and about 20% from a year ago.

The ten-year U.S. Treasury note ended the week with a yield of 4.22%, a bit below last week's 4.31% but still about a 25% higher yield from a year ago. There was little change elsewhere as the very shortest of Treasury securities remained at an annualized yield of between about 5.4% to 5.5%. West Texas Intermediate crude oil soared to nearly $84 per barrel mid-week, but quickly settled back to $80.87 by the end of the U.S. market week, about where it was last week.

The Economy

A post-pandemic new normal seems to be emerging in the U.S. economy. In the late 20th century and into the 21st century, pre-pandemic, a rise in short term interest rates like that we have seen in the past two years would have generated a major recession. There are similarities between the interest rate increases that led to the 2000-2002 recession, but in that episode which abruptly ended in a major bear market and a very noticeable recession, the Federal Reserve Board (the Fed) only raised nominal interest rates about 2% over a 16-month period. The so-called "great recession" of 2007-2009 saw the Fed raise interest rates about 4.5% over 13 months, triggering another roughly 50% market selloff and a severe recession. This time around, the Fed has raised interest rates a nominal 5.25% over a 19-month period and the result is a surging bull market and an economy growing at rates previously thought to be well-nigh impossible.

So, what is different this time? For one thing, in the past, when the Fed decided to tamp down a runaway economy, most people had their credit cards tapped out and relatively low savings. This time around, it appears that most people had used the windfall stimulus checks to pay down their revolving debt and fill up their savings positions. Thus, the American consumer was not hit or at least not hit too hard by that rate increase. The economy, on its bounce back from the pandemic, was desperate for new employees, so those people that were laid off as interest rates rose, promptly found new jobs, often at a higher earning level than what they lost.

Yet another different factor was that the value of private residences rose at a near record rate producing something called "the wealth effect." Why? Because the period of extraordinarily low rates that preceded the interest rate increases allowed those with mortgages to refinance at low rates not seen in many decades. Those low mortgage rates deterred people from selling their homes and led to a housing shortage and a resulting rise in home values. Those high home values combined with the now lower mortgage payments, produced even more consumer discretionary cash flow in the economy. Yes, the rise in food, fuel, and most other prices, served to drain some of that extra cashflow

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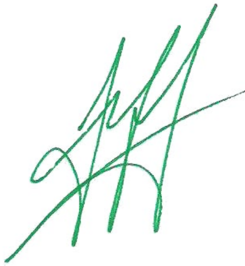
out of the economy, but with record levels of employment and wages and even Social Security payments rising faster than inflation over the past two years, the net result was a substantial increase in "free cash flow" available to purchase previously denied services and to take advantage of the now refilled store shelves to buy goods.

The bottom line is that the ongoing increase in jobs and working people to fill them resulted in more money available to stimulate businesses (demand) and produced the need to hire more people. The newly hired people added to the demand and have produced a virtuous cycle. Until recently, the open question has been, "Where did all the new employees come from?" The unemployment rate, which normally stays at around 4% in the best of times, dropped last year to 3.4%. Then, even as well above normal numbers of people were being hired, the unemployment rate *rose* to 3.9%, indicating that a *lot* of new workers were entering the workforce. Now it is beginning to be clear that those new workers were largely immigrants moving in to fill the lower paying jobs, and in doing so bumping longer term residents up to higher income levels. This has happened before. In the 1920s, an immigration surge from eastern and southern Europe entered the U.S. and filled the lower rungs of the workforce. It is certainly fascinating to notice that in China, Japan, and even Europe one of the prime reasons their economies are stagnating and even declining is because of their aversion toward foreign workers as their populations decline, while here in the U.S., a nation composed primarily of immigrants, one secret as to why our economy is roaring ahead is that we welcome those qualified immigrants and they fill the jobs we don't want to do.

Until next week, we remain dutifully and faithfully at our duties, working hard to provide you, our clients and sole employers, with the very best fiduciary advice, service, and portfolio management. As always, we welcome your questions, comments, and thoughts on what we write, say, or do. Happy springtime!



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