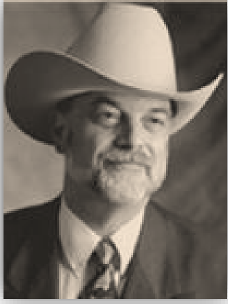

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TPWC Market and Economic Update

The Markets

In this foreshortened Christian Holy Week, our dear old S&P 500 Stock Index (SPX) finished its initial quarter for 2024 having risen 10.16%, the best first quarter since 2019. Even though it gained a mere 0.39% for the week, it ended the week, the month, and the quarter at a record high of 5254.35. Perhaps even better, the seven high-flying "AI" stocks that came to be known as the "magnificent seven" broke apart in their performance for the quarter, and a much more significant portion of the quarter's growth came from the rest of the market. Meanwhile, the SPX was up 3.10% for the month, almost 30% over the last year, and about 31% from this time three years ago. Again, we are struck by the observation that virtually all the appreciation we have seen in the trailing three years came in the last twelve months. For that period, the SPX average compound nominal rate of return works out to 9.34%. We also follow another stock index, the CRSP US Mid-Cap Value Index, as we are, first, value investors, and second, it tends to provide a better understanding of what the broad market is doing. It closed out the week, the month, and the quarter at 2694.67, up 2.06% in the last business week of the quarter. It is up 7.15% so far this year and about 18.48% from a year ago.

A valid question is sometimes asked about the effect the dividends paid from the SPX would have if they were reinvested. Generally, over long periods, the Index's dividend yield is about equal to inflation, so looking at the raw numbers of the Index gives us a rough estimate of the actual return. As the last three years have seen unusually high inflation, averaging 4.36%, while the Index dividend yield has averaged about 1.5%, we need to subtract 2.86% from the nominal yield to get the actual average annual compound return, 6.48%. It does paint a different picture to note that the real three-year yearly average rate of the S&P 500 was about 6.5% rather than the simple gain of 30%, but it, like the fact that all that return was in the last twelve months, is a lesson in the reality of investing.

The benchmark ten-year U.S. Treasury note ended the week yielding 4.20%, slightly lower than last week but with a decidedly higher yield than where it started the year at 3.57%. Ultra short-term maturity Treasury bills remained just below an annualized yield of 5.5%, while the 30-year bond yielded only 4.34%, causing the Treasury yield curve to stay very inverted. West Texas Intermediate crude oil (WTI) crept up 3% for the week to $83.04 as domestic US demand continues to grow.

The Economy

On Friday (yes, Good Friday, the bureaucrats at the BEA worked on that holiday), the Bureau of Economic Analysis (BEA) at the Labor Department published its February Personal Income and Outlays. The critical data point was the Personal Consumption Expenditures Price (PCE) Index because the Federal Reserve Board (the Fed) has repeatedly stated that is what they watch. The 12-month trailing PCE rose only 2.5%, quite close to what the Fed wants to see. The not-so-good news was that the monthly PCE was up 0.3% after increasing 0.4% last month. The report also revealed that while disposable personal income rose 0.2% last month, personal consumption expenditures were up 0.8%, suggesting that the American consumer is drawing from savings and/or increasing revolving debt.

The Financial Times, taking note, as we have, that something is very different in the U.S. economy compared to those in the rest of the world, published what they believe are the reasons for our American exceptionalism this time around.

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The FT found several drivers that appear to be causing that difference. Among those are the "Wealth Effect" created by the relatively high prices on existing homes and a soaring stock market, American worker productivity, as it keeps improving at a well above average rate, and in a surprise found by Goldman Sachs, our above-trend immigration rate over the past couple of years. Literally every other developed economy across the globe is severely restricting the immigration of workers, while here in the U.S., we are welcoming and even encouraging legal immigration. As a group, those immigrants are quickly becoming highly productive workers, particularly in the lower-tier, manual labor category, jobs native-born Americans have been avoiding. The report was notable, if sad, that in the Baltimore bridge collapse, the workers patching potholes at 1:30 in the morning were all immigrants. Their contracting employer was quoted as saying that was the only people he could get to do that work.

Meanwhile, the good old American economy keeps growing, confounding the naysayers, and producing new jobs at a near-record pace even as the unemployment rate rises due to new workers entering the workforce. Even the Conference Board's Leading Economic Indicators report has started to rise after more than a year of predicting an imminent recession. It may be possible to have a better economic situation in this country than we have now, but we are hard-pressed to figure out how.

Have a safe and peaceful Easter weekend. Rest assured that we remain diligent in our fiduciary duties, managing your investment portfolios, providing the best possible service, and dispensing unbiased investment advice focused on serving your best interests.

Your obedient servants,

Jeffrey W. McClure, CFP®
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