THE PERSONAL WEALTH COACH®

An SEC Registered Investment Adviser

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April 12, 2024

TPWC Market and Economic Update

The Markets

Our dear old S&P 500 Stock Index (SPX), acting very much its age, (It is, after all, 101 years old!) got spooked by the bureaucrats at the Bureau of Labor Statistics, causing its minions (stock traders) to bolt for the proverbial door, taking the Index level down to 5123.41, a decline of 1.55% for the week. It finished the week 7.41% higher so far this year and about 24% up from this time last year. The CRSP US Mid Cap Value Index, not to be outdone by its older, larger, brother, fell 2.86% to 2575.07 but managed to hang on to a 2.4% gain this year and a very respectable 10.75% rise from this time last year. The inflation fear was suddenly compounded at the end of the week by news that U.S. warships are headed for the shores of Israel in anticipation of an Iranian attack on Israel.

The benchmark ten-year U.S. Treasury note, apparently missing the message that war is bad for investments, ended the U.S. workweek yielding 4.5%, up from last week's 4.39% as it continued its uneven but powerful decline in value as its yield has risen most weeks this year. The highest (annualized) rates were, as usual, at the shortest maturities with the 2-month bill hanging in there at 5.5%. West Texas Intermediate crude oil (WTI) apparently missed the message too, as the price ended the U.S. workweek at $85.51, about where it was last week.

The Economy

High inflation or not high inflation, that is the question. It is the question that a lot of folks are asking, but it may be the wrong question. The very bureaucratic Bureau of Labor Statistics (BLS) dropped their monthly bombshell on Wednesday with the release of their "Consumer Price Index Summary" and it reported an "unadjusted" twelve-month trailing consumer price increase of 3.5%. That was relatively unpleasant, but for those of us who delve beyond the headlines, the monthly numbers for February and March were more attention getting. After several months of 0.1% and 0.2% monthly inflation, the jump to 0.4% we have seen in the past two months has the potential to be alarming. 0.4% compounded for twelve months equates to nearly 5%. Not only would such a number prevent the Federal Reserve from lowering interest rates, but it might well cause them to raise rates this year and next. That, of course, spooked those easily spooked on Wall Street. Shelter and services seem to be the culprits in this drama. Medical care services jumped 0.6%, shelter was up 0.4%, and electricity jumped 0.9%. Services in general rose about half a percent in one month. If you have tried to hire someone to work on your house, you will not be surprised.

So, what is the question we should be asking? The prime issue here is whether those areas where prices suddenly surged can keep on surging. The answer is probably, "No." We suspect that prices will stabilize in the coming months unless there is a major escalation in one or more of the wars plaguing the other side of the world. The consensus among those who actually do a bit of thinking before spouting off was that the hoped for three interest rate cuts from the Fed this year are probably off the table. That, in our opinion, is not a bad thing. It is reasonably important, in our opinion, that we remember for most of the past several decades, 3% inflation has been the normal rate. If we continue to have the booming economy we are seeing now, and let's hope we do, then demand will continue to be high, particularly for services, and more people will be employed at higher wage rates. What's not to like about that? It also means though that we are returning to a more or less "normal" economic condition in which short term rates will be between 3% and 4% but longer-term Treasury rates will rise to 6% and above. That sounds extreme if you do not remember the U.S. economy prior to the Great Recession of 2008-2009. That Great Recession created an abnormal

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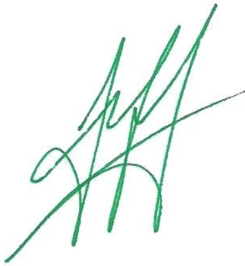
imbalance in the U.S. economy, resulting in near zero rates through the pandemic and out the other side. That imbalance necessitated an abnormally low set of rates, then many folks assumed those abnormally low rates and inflation to be a forever thing rather than a short-term reaction (which in the long-haul is exactly what it was).

Then, as the week drew to a close, the same BLS released the Producer Price Index (PPI) (wholesale prices). After rising 0.4% and 0.6% respectively in January and February, presaging the CPI numbers we are seeing, the PPI for Total Final Demand rose only 0.2%, or about 2.4% annualized. Wholesale prices tend to drive retail prices with the only major addition to the equation being labor costs. Better yet, Processed Goods for Final Demand (things that only need to be put on the shelf to sell) actually fell 0.5% in March. If labor prices do not rise precipitously and wholesale prices fall, then retail inflation has a short half-life.

Last on the list this week are growing reports that mainland China is making a shot at exporting their way back to economic health. A growing body of evidence suggests that Chinese manufacturers are making a substantially larger quantity of products than current demand will support. That means that the price of all those goods will need to, and in some cases is, falling. That is great news if you are in the market to buy something made in China, but it may well also kill inflation, not to mention putting a lot of companies in the West out of business.

Until next week, we remain your faithful servants, doing our best to do our duty to God and Country, to be Square, obey the Scout Law, and steadfastly remain in fiduciary duty for you.

Your obedient servants,



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