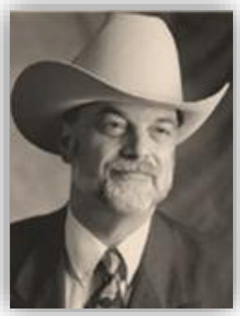

THE PERSONAL WEALTH COACH®

An SEC Registered Investment Adviser

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TPWC Market and Economic Update

The Markets

The venerable S&P 500 Stock Index (SPX) turned in an impressive week, rising 1.54% to close at 5303.27 despite a report that one-year trailing inflation was 3.4%, far higher than the Federal Reserve's target of 2%. It is now up 11.18% this year, 27.52% higher than a year ago, and 27.38% higher than three years ago. Perhaps not as significant for the market or the economy but still high in symbolic value, the more often quoted Dow Jones Industrial Average closed at 40003.59, above the symbolic 40,000 point for the first time in its long history. The other market indicator to which we pay close attention, the CRSP US Mid-Cap Value Index where we believe a more realistic accounting for market values may be found, closed at 2682.70, up 0.75% for the week, 7.02% this year, and 18.55% higher than three years ago.

The benchmark 10-year U.S. Treasury note ended the U.S. market week yielding 4.42%, an interest rate almost 14% higher this year, 24% higher than a year ago, and a whopping 170% higher than three years ago. West Texas Intermediate crude oil (WTI) ended our market week (it trades 24 hours per day around the world) at $79.95, up about 2%.

The Economy

As usual, the focus of the economics-oriented media was on inflation, not necessarily because the editors, speakers, and writers understand inflation or even care very much about it, but because they reflect the opinion that the Federal Reserve Board (the Fed) is the controlling force in the U.S. economy and, as a result all will be well if the Fed lowers short-term rates and horrible if they don't, or even worse, raise short term rates. Fortunately for us, at least for the past two years or so, that has proven to be profoundly untrue.

The Consumer Price Index (CPI), certainly the oldest, if perhaps least accurate of the measures of inflation widely published, was up an unadjusted 3.4% over the last twelve months according to the Labor Department's venerable Bureau of Labor Statistics (BLS), compared with last month's trailing 12-month rate of 3.5%. The monthly increase of 0.3% was consistent with that 12-month number. Moreover, both of those numbers were what the consensus of economists surveyed by the Wall Street Journal had expected. Even the so-called "core" CPI was up only 0.3%. You may find this hard to believe but even that most visible of price indicators, gasoline, was only up 1.2% over the last year. The CPI increase would have been lower except that the price of shelter, including the inferred rent a homeowner pays to him or herself, rose 5.5% since last year. Again, it is hard to believe, but the price of food in grocery stores actually fell over the last year. The reported reason we find that so hard to believe is that we still remember food prices (and sizes) from five years ago, just before the pandemic.

Meanwhile, the economic indicators we follow suggest that the American economy continues to slowly accelerate. New claims for unemployment insurance, which rose last month, fell this month back to below historical levels. Home building accelerated. Capacity Utilization, the percentage of the economic capacity we are using, held in the mid-78% range, about as high as it can go without starting more inflation. At the same time house prices showed signs of decline in Florida and Texas, suggesting that the boom is drawing to a graceful end rather than bursting as it did in 2008. Admittedly, the Producer Price Index (PPI) for final demand, a measure of wholesale prices paid by retailers for what they sell, did jump 0.5% in May, but one month in the PPI is not a good measure. The Index is only up 2.2% from a year ago.

Looking at the longer-term, Vanguard's Chief Economist, Joe Davis, published a report forecasting a once in a generation economic boom to unfold in the next few years, comparable only to the burst of productivity and wealth creation we last saw in the decade following World War II. His prediction is that the integration of AI into our economy will provide an historic boost to productivity and production that will more than offset the absence of population growth.

Once more, we see indications that the U.S. economy is still humming along at somewhere near its real-world maximum capacity with what is effectively full employment, declining inflation, and a delightful increase in both productivity and opportunity.

Until next week, take care, enjoy life, and know that we are here working for you and only for you, our clients!

Your obedient servants,

Jeffrey W. McClure, CFP®
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