THE PERSONAL WEALTH COACH®

An SEC Registered Investment Adviser

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TPWC Market and Economic Update

The Markets

Our dear old, if somewhat unreliable, favorite stock market indicator, the S&P 500 Stock Index (SPX) started out the week upbeat, only to get body slammed, first on Wednesday, on reports that the Federal Reserve was uncertain about whether inflation was coming down, and then again on Thursday when the S&P Global PMI Index indicated the U.S. economy was accelerating (see below). Then, on Friday, it suddenly occurred to traders that a healthily growing economy might be a good thing after all, and the Index reversed itself to close at 5304.72, a 0.03% gain for the week. That tiny gain left the SPX up 11.21% this year and over 26% for the last 12 months. The other stock index we follow, the CRSP US Mid-Cap Value Index, slipped 1.55% to 1641.08, leaving it up almost 19% over the last year.

On the bond side of the market, the 10-year U.S. Treasury note closed out the week yielding 4.46%, continuing its cumulative rise in longer-term rates from its record low yield of around 0.52% four years ago. Despite claims that the pain for bond holders is over, or nearly so, the decline in market value for bonds continues. West Texas Intermediate crude oil (WTI) fell nearly 3% as the price slipped to $77.78 per barrel and was reflected in a decline in gasoline prices just in time for the Memorial Day holiday and the unofficial start to summer vacations.

The Economy

There were the usual dire signals this week that inflation was once more about to raise its ugly head and others signaling that recession was imminent. Worst of all was the report that the Federal Reserve was uncertain about future inflation. You would think that the prognosticating pundits would eventually get it that the economic tea leaves that have worked for decades are not what they used to be. In the few decades since we first started to keep track of such things, an inverted yield curve, in which short-term interest rates were significantly higher than long-term rates, did not presage either a recession or a bear market. The U.S. Treasury yield curve became inverted in July 2022 and in March of this year that inversion became the longest on record. Instead of a bear market we have had a major bull market in stocks and an economy that has grown faster than most economists thought possible even in the best of times. Yes, new home sales have recently shown signs of declining and last week we saw a rise in new jobless claims (although that reversed this week). Then the Chicago Fed National Activity Index declined in March and April, albeit by less than a quarter of a percent, but it declined, prompting the naysayers to proclaim, “See, the recession is here!”

Those perpetual bears were surely disappointed as the S&P Global Flash US Composite PMI® (Purchasing Managers’ Index) reported Thursday that U.S. economic output had grown at the fastest rate for over two years in May. The US PMI Composite Output Index came in at 54.4, a 25-month high on a scale where numbers above 50 indicate expansion/growth and below 50, contraction/decline. Even the US Manufacturing Output Index, a recent laggard, popped up to 52.4 while the Manufacturing PMI rose to 50.9, suggesting the mild contraction in manufacturing we have been seeing for the past year or so was reversing. No one who has tried to eat at a restaurant or get a car repaired will be surprised to note that the Services Business Activity Index continues to roar forward at 54.8. Factory production rose for a fourth consecutive month amid the largest export gain in two years.

The backside to the S&P Global report was illuminating. National Employment fell marginally for a second consecutive month in May. What was interesting was that factory jobs grew at the fastest rate in ten months in May,

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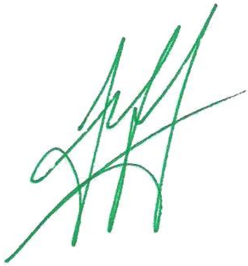
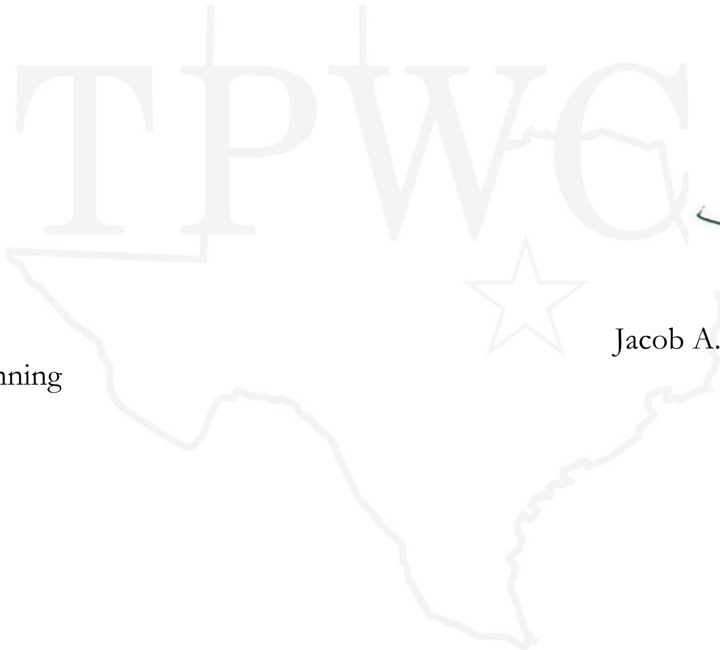
driven by rising orders and optimism about business prospects, while services employment fell for those same two months. The underlying anecdotal reports suggest that the chronic shortage of service employees has resulted in an acceleration in digital replacements for those employees. Again, anyone who has visited a restaurant, full-service or fast food, in the last few months may have noticed the credit card machines on restaurant tables enabling customers to scan a code and pay their tab via cell phone and it has become common for drive through windows at fast food restaurants to only have one window in operation. At McDonalds, the bellwether for fast food, many, if not most orders now are coming in via a digital kiosk rather than taken by an employee.

It is becoming increasingly clear with a series of reports on Thursday that the U.S. and Eurozone economies are firmly in growth mode even as long-term inflation declines, even in the face of relatively high interest rates. We remain of the opinion that people should listen to Chairman Powell's warning that interest rates will remain higher, longer than most people seem to believe.

Until next week, drive defensively as we collectively weather the Memorial Day weekend, and know that we are here to serve you and only you, our clients, and sole employers.

Your obedient servants,





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