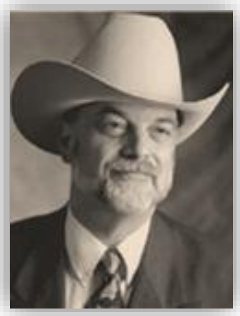

THE PERSONAL WEALTH COACH®

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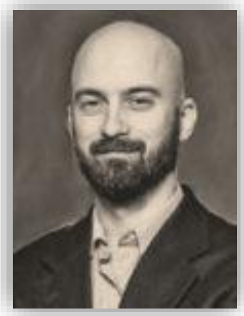

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June 28, 2024

TPWC Market and Economic Update

The Markets

It was a heck of a first half in the stock market. Even though the S&P 500 Stock Index (SPX) slipped 0.08% to close at 5460.48 in this, the last week of the first half of 2024, the SPX roared ahead a truly impressive 14.48% for the trailing six months as June came to an end. It is now up 24.76% from a year ago and 27.27% from this time three years ago. Our other U.S. stock market indicator, which we have noticed, seems to provide a better measure of how the U.S. stock market has performed outside of the five or so mega-cap growth stocks that now make up about 1/3 the value of the SPX, the CRSP US Mid Cap Value Index, fell 0.35% for the week, but like its much larger and older cousin, turned in a very respectable 10.58% return for the trailing 12 months.

I think there's a point worth noting here. Historically, when the top few stocks in the SPX have soared this far ahead of the broad market, the final act of the play is often less than pleasant for that index and particularly for the mega-cap growth, cutting-edge technology stocks that have led the soaring charge. Such disbalances commonly go on for years before they suddenly resolve themselves, as they did between 1994 and 2000, but to date, this type of bifurcated market ends with a crash of the highest-flying tech stocks and other growth-oriented stocks, but often with little effect on the underlying, smaller value stocks that make up the foundation of the U.S. stock landscape.

The benchmark 10-year U.S. Treasury note ended the week and the first half yielding 4.36%, 2.59% higher than last week's 4.25%, and a whopping 17.52% higher than the 3.71% yield we saw a year ago. Meanwhile, the very short-term Treasuries continued to dominate, with their annualized yield remaining just under 5.5%. West Texas Intermediate crude oil (WTI) climbed to $81.54 per barrel, up 1% from last week and over 17% higher than a year ago.

The Economy

The (almost) always exciting new release from that most dynamic federal agency, the Bureau of Economic Analysis (BEA) in the Commerce Department, was the big news this week, at least for economics geeks like us. First, personal income for U.S. workers jumped 0.5% for the month of May, as did disposable personal income. Personal consumption expenditures (PCE) rose 0.2%, a 2.4% annualized rate, suggesting Americans are back to spending less than they are making, a good sign for long-term economic health. The big news, though, was that the PCE inflation index rose exactly 0.0% for the month and only 2.6% from a year ago. For those who do not remember, or were not paying attention, that monthly inflation number has been inching up all year to the degree that there was speculation that the Fed might not just defer reducing short-term rates but instead raise them in the face of growing inflation. All concerned breathed a sigh of relief.

In an anticlimactic burp of information, the BEA released its third estimate for the first quarter's GDP, 1.4% (4.5% in current dollars), and reaffirmed the 4th quarter of last year at an annualized rate of 3.4%. Those two rather esoteric numbers mean that after subtracting inflation and the balance of trade deficit, the U.S. economy has been growing at an annualized rate of 2.4% for the six months ending in March. Moody's estimates another quarter of 1.4% annualized real GDP growth for the second quarter, followed by an acceleration in the third. This slowing to "only" 1.4%

annualized growth for two quarters is looking more and more to be the widely predicted "recession." Given the massive traffic jams around the country near major cities, we are glad the growth rate was this muted.

Under the heading of "odds and ends" are the reports that either the US dollar is the strongest or the Japanese Yen is the weakest (or a bit of both) since 1986, as it now takes 150 Yen to purchase a single U.S. dollar. Those who are ancient enough to remember "Back to the Future" may recall those days when the juggernaut Japanese economy was forecast to dominate the world in the decades to come, even as China is supposed to do now. In another bit of unpopular good news, all the 31 big banks tested by the Federal Reserve's annual stress test, in which the simulation was for a severe global recession, passed with flying colors. The scenario included a 10% unemployment rate, a 55% drop in the SPX, and a 40% drop in commercial real estate prices. The immediate result will likely be increased stock buybacks and dividends among major banks.

Once more, we are forced to report that all is well in the U.S. economy, other than for those traveling on interstate highways near large cities. Growth continues in all the critical areas, and there are hints of even better times ahead.

Until next week, we remain solely your advisors and team, ready and eager to serve you as your fiduciary advisors and investment managers.

Your obedient servants,

Jeffrey W. McClure, CFP®
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