THE PERSONAL WEALTH COACH®

An SEC Registered Investment Adviser

Jeffrey W McClure CFP® *Jacob A McClure* CIMA®

PO Box 1029 / 918 N. Main Street
Salado, TX 76571

(254) 947-1111
(800) 914-7526

Serving Investors Since 1982

www.tpwc.com

jeff@tpwc.com

jake@tpwc.com

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TPWC Market and Economic Update

The Markets

Artificial Intelligence stock's future growth rates came into question this week as investors rethought the wonders of high-tech, a sentiment confirmed as much of the world's computer infrastructure took a hit from a bug in some anti-hacker software on Friday. The Fabulous Five AI stocks that have driven much, if not the majority of growth in the S&P 500 (SPX) this year reversed their giddy ascent into infinity and beyond on Wednesday and dragged the index down almost 2% to 5505.00 for the week. Still, the Index remains up 15.41% so far this year, 20.57% higher than a year ago, and 29.27% higher than three years ago, an average annual rate of return of 8.94%. That may sound quite impressive but considering average inflation at about 4.97% for that same period, the real return has been about 4% per year, not bad, but not overwhelming. The other index we follow the CRSP US Mid Cap Value Index, rose 0.87% for the week to close at 2694.92. It is now up 7.5% this year, and nearly 9% since this time last year.

In the debt markets, the benchmark 10-year U.S. Treasury note ended the week yielding 4.25% as interest rates rose 1.67% for the week and are now about 9.5% higher than they were at the beginning of the year. Short term annualized Treasury bill rates remained in the 5.5% range. West Texas Intermediate crude oil (WTI) slipped down about 2.34% to close the U.S. market week at $80.29 per barrel.

The Economy

The current state of the United States Economy can be summed up in a quote from Justyna Zabinska-La Monica, Senior Manager, Business Cycle Indicators, at The Conference Board where the Index of Leading Economic Indicators (LEI) is created, "…the LEI's long-term growth has become less negative, pointing to a slow recovery." The Conference Board is now forecasting around a 1% GDP growth rate this quarter with higher growth beyond that. Their press release comments that despite a negative LEI since mid 2021, we have now passed the "recession signal" zone and have entered into what would normally be considered "recovery." What we have seen is the exception to the rule that a long and significant decline in the LEI is predictive of an economic recession. Instead, what we got was growth, admittedly reduced, but certainly not the contraction that was so widely forecast by seemingly everyone but us.

Across the board, the economic data and reports are indicating a stabilization in economic growth following a surge following the pandemic and then a gradual decline in that rate. Over the past four or five decades, the decline in GDP growth has almost inevitably led to zero and then below zero as we experienced an economic contraction, commonly characterized as a "recession." Such a contraction was also normally preceded by a decline in stock market values, usually in the form of a "bear" market where the S&P 500 dropped by at least 20% or at least a "correction" with a 10% decline. Obviously, none of that happened. What did happen is that inflation has declined from the highest rate in decades to its current rate of effectively zero and we have had one of the largest increases in nominal stock market values since World War II.

Why that happened the way it did, we think is understandable. The normal business cycle involves first an oversupply-induced recession in which employers have to cut prices and lay off workers, then a recovery as consumers begin buying again and employers start hiring creating a feedback loop of more money being spent, more people being

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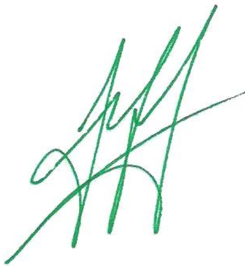
employed at higher wages, and so on. Then as the consumers have exhausted their credit card limits and begin to pull back, employers have to cut prices and lay off workers, taking us back down to recession. This time, it wasn't a business cycle that drove the process, but a pandemic. That created a situation where more people were unemployed, but many more retreated to their homes and began home repair projects and generally buying things online. The combination of the pandemic lockdown and a sudden surge in demand caused prices to shoot up. As we emerged from the pandemic-induced recession, the American consumer, the most powerful economic force in the world, had low debt and a pent-up desire to buy things that were still in short supply, driving inflation up further. The gradual return to more normal spending patterns showed up on all the charts as the leading edge of a contraction when it was, in reality, just a reduction in our growth rate as it returned to historical norms. Across the economy, The Commerce Department reported June's retail sales were little changed from May. The Federal Reserve's Beige Book reported that slow growth was the national norm. Household debt has largely stopped growing as a percentage of income. Industrial production grew 0.6% in June after growing the same amount in May.

As a last note, history suggests that it makes little difference economically who wins the Presidential election. One thing we have seen consistently is that equity markets tend to rise following the election, no matter who wins. The danger is in assuming that if the candidate you don't like wins, the economy and the markets will crash. Historically, the opposite has been true.

Until next week, we continue in our team-based effort to provide you with the best possible fiduciary advice, portfolio management, and service.

Your obedient servants,



Jeffrey W. McClure, CFP®
M.S. Personal Financial Planning

Jacob A. McClure, CIMA®

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