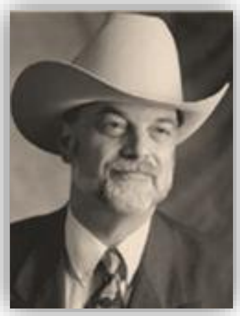

THE PERSONAL WEALTH COACH®

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TPWC Market and Economic Update

The Markets

Our dearly beloved, if sometimes befuddled, old Standard and Poor's 500 Stock Index (SPX) had a bit of a hard time this week as the mighty, magnificent 5 AI-related stocks continued to descend back to reality from their recent stratospheric highs. The NASDAQ, where those Large-Growth AI Stocks are truly the drivers, had its worst day since 2022 on Wednesday as it fell 3.6%, led by Tesla and Nvidia. The SPX declined 0.83% to 5459.10, a bit of a letdown after last week's 5505.00 record, but it is still up 14.45% year-to-date, 19.54% from last year at this time, and is up 23.44% from three years ago. To once more put that in perspective, for the last three years, the SPX has had an average annual growth of 7.27%, but inflation has run along at about 4.97% for the same period, leaving the Index with a net compound price gain of about 2.3% per year. To be completely transparent about that rate, we do have to include that dividends have averaged between 1.24% and 1.78% over that period, so the total for someone reinvesting those dividends would have been about 3.7% per year after subtracting inflation. The other index we follow, the CRSP US Mid-Cap Value Index, rose 1.23% for the week to close at 2727.98. What we are seeing is what is known as a "market rotation" as the large, well-known, AI-related, growth stocks are being sold, and investors are buying into mid and smaller-sized "value" stocks, driven more by their current earnings rather than the hope and speculation that has been the motivation to buy the large-cap growth stocks that have recently dominated the market. This is a healthy sign in a bull market that it may well have room to run.

On the other side of the markets where debt is the prime subject of interest, the benchmark 10-year U.S. Treasury note ended the week with a yield of 4.20%, down just a bit from last week but much higher than the 3.88% yield we saw as the year began or the 3.86% a year ago, and a lot higher than the 1.29% yield of three years ago. The Treasury yield curve remains severely inverted, with one- and two-month Treasury bills still providing an annualized yield of around 5.5%. The price for West Texas Intermediate crude oil (WTI) slipped backward about 4% to $76.82 per barrel.

The Economy

There were two big news stories for the week of July 26. First, our beloved Bureau of Economic Analysis (BEA) announced that the U.S. economy grew at a very surprising annualized rate of 2.8% in the second quarter. The consensus forecasts among economists were around 1.25% to 1.4%. That report becomes even more impressive when measured in "current dollars" unadjusted for inflation, showing the U.S. economy growing at a whopping 5.2% annualized rate. Looking beneath the surface, there were even more surprises. Both the sales of goods and services were up substantially. The other pleasant surprise from the BEA was that the Personal Consumption Expenditure (PCE) price index only rose 0.1% from last month, with goods declining by 0.2% while services prices increased by 0.2%. One year ago, the PCE price index increased 2.6% from the same month. At the same time, personal savings held steady at 3.4%.

What does all of that mean? In short, the U.S. economy appears to be growing roughly twice as fast as was generally expected or forecast while inflation continues to decline. Unemployment remains around 4%, generally considered to be the definition of "full employment." Consumers, the foundation of our economy, continue spending healthily. That ability to keep spending is founded on an average annualized wage growth reported by the BEA to have averaged about 3.6% per year over the last five months. Meanwhile, worker productivity also continues to grow, which looks more and more like a solid long-term trend.

All that good news comes from the past, so what about the future? Moody's Economics reported that if we exclude the volatile transportation sector, new orders for durable goods picked up strongly in the second quarter and were broad-based, with primary metals, machinery, and computer/electronics posting solid gains. As we have written before, durable goods orders are an excellent predictor of how the economy will be faring over the next two quarters or so, as they are long-term investments. One of the most reliable indicators of an incipient recession is a substantial reduction in that area, just as one of the most reliable indicators of more growth is a rise in durable goods orders. Additionally, a substantial part of that surprisingly high second-quarter GDP number came from "investment," defined as money being spent on improvements in real estate and equipment. The one sour note for the week was that house sales continue to decline even as new records are being broken for average house prices.

Once more, the bottom line appears to be that we are enjoying the best of times, with sufficient economic growth to keep most people who want to work employed and wages increasing faster than inflation. To paraphrase the old beer commercial, "It just don't get much better than this."

Until next week, rest assured that the TPWC team is working hard to provide you with the best of personal service and sincere, fiduciary advice and individual portfolio management to give you the best opportunity we can to allow you to reach your personal goals.

Your obedient servants,

Jeffrey W. McClure, CFP®
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