THE PERSONAL WEALTH COACH®

An SEC Registered Investment Adviser

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TPWC Market and Economic Update

The Markets

Our dear old S&P 500 Stock Index (SPX) had a relatively unhappy couple of months as summer got underway. For the week ending on August 2, it declined just over 2% to close at 5346.56, leaving it up "only" 12.09% so far this year, 18.46% from this time last year, and almost 22% from three years ago. Translated into the way we normally look at investment returns, that equates to about a 5.81% compound annual price return and 7.66% if we add in dividends. Unfortunately, we had nearly 5% annual inflation over those three years, so the real returns were either 0.81% or about 2.66% net, depending on whether or not one reinvests dividends. Those numbers are one of the main reasons we do not consider the market "overpriced." We also like to look at the CRSP US Mid-Cap Value Index, which was down 1.43% this week to close at 2689.08, fulfilling its role as a less volatile part of the market. It is now up 7.27% this year and 9.53% from a year ago.

The 10-year U.S. Treasury note yield made a big move as the stock market declined, dropping to 3.80% from last week's 4.2%. The ultra-short-term Treasury bills remained around 5.5%, while the 30-year T-bond dropped its yield to 4.11%. The bottom line is that the Treasury yield curve from five years out is now positive, indicating the Fed is the only thing keeping the curve negative. West Texas Intermediate crude oil slipped to $74.08 per barrel from last week's $77.16.

The Economy

Whatever is going on in the inextricably linked U.S. and world economies, the thing that most observers can agree on is that it is very different than what came to be accepted as the norm in the post-World War II world. Following World War II, with the Great Depression vivid in the minds of government leaders and voters, controls were instituted to limit the extremes that became apparent in the pre-World War II period. The analogy commonly used was that of an internal combustion engine, which, without governors and limiters, was prone to both overspeed and unexpected stalls. The U.S. Federal Reserve system was assigned a host of additional regulatory roles to hopefully head off runaway inflation and depressions before they could get started. Since then, it consistently stopped recessions from turning into depressions and greatly stabilized our banking system. With the extreme oscillations that had plagued the U.S. economy for the previous century or more taken off the table, what was left was a relatively benign and largely predictable series of business cycles that came to be accepted as a force of nature.

Then came 2020 and the Covid pandemic. Just as the 1918 pandemic was a trigger for an unexpected and severe recession followed by a burst of high inflation, the 2020 version again disrupted the U.S. and global economic systems and the familiar business cycles. As the recovery from 2020 has progressed, it has shown the economy to be far more like it was a century ago than it was like the seventy years of cause and effect we had come to accept as immutable laws of economics. The Index of Leading Economic Indicators (LEI) has signaled an impending severe recession for over twenty months, yet what we got was an economic boom. One of those indicators, the Treasury yield curve, was probably the most reliable, but it too has spent most of the last two years screaming a recession warning even as we sailed through one of the most robust economic booms in U.S. history. Ironically, even as pundits are again warning of an impending recession, the yield curve appears to be becoming positive.

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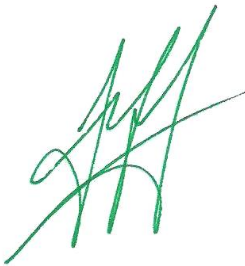
The immediate practical result is that we must look deeper and with more understanding of why some indicators were predictive in the past and why they may not be today. For example, the Institute for Supply Management's (ISM) manufacturing index has now been declining for four consecutive months and has dropped to 46.8 on a scale where 50 is the dividing point between expansion and contraction. But, if we look only at the hard data and eliminate the numbers for "sentiment," the index rises above 50. That difference explains why manufacturers have reported their employment, new orders, production, inventories, and supplier deliveries in expansion mode, even as the headline number declined. This week, our beloved Bureau of Labor Statistics announced that unemployment rose to 4.3%, based on the household survey, while in the same press release, employers were reported to have hired 114,000 more people in July and have averaged 215,000 net new hires per month over the past twelve months as unemployment supposedly rose from 3.6% to 4.3%. Those are contradictory numbers. We suspect that the rising unemployment rate results from the household survey being done by phone. Our personal experience is that our willingness to answer a random number call, much less respond to a phone survey, has diminished greatly in the past few years. It may be that families with a newly unemployed member are far more likely to respond to that random phone call, thus distorting the data.

It is getting harder to estimate, but from our perspective, the U.S. economy continues to be in good shape, albeit with slower growth than we have seen recently, and that is a good thing.

Until next week, we remain faithfully dedicated to providing the best possible service, fiduciary advice, and portfolio management to you, our clients, and our sole source of compensation.

Your obedient servants,



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