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

August is sometimes referred to as "the doldrums" in the markets as many of the movers and shakers on Wall Street are traditionally avoiding the worst of the summer's heat at their vacation homes. This year, they must have come back early, perhaps spurred on by the downdraft that hit the markets last week, because August has been anything but dull this year. The S&P 500 Stock Index (SPX), in our view, the best, if often flawed, broad market indicator, shot upward suddenly at the opening bell first Tuesday morning, and after climbing steadily on Tuesday and Wednesday, bolted upward again at Thursday's bell and kept going. As the market week ended, the closing bell marked a jolting 3.93% rise in the Index to close at 5554.25! That delightful close left the grand old Index up 16.45% this year, 26.11% in a full year, and almost 24% since three years ago. Yes, you read right, it is up more in the last year than in the last three! Our other followed market marker, the CRSP US Mid Cap Value Index, joined the party, rising 2.17% to 2738.58, leaving it up 9.24% this year and 15.65% higher than a year ago.

The benchmark 10-year U.S. Treasury note finished the week near its starting point with a 3.89% yield. The 30-year bond yielded 4.15%, and the one-month T-note held nearly steady at 5.53% annualized. West Texas Intermediate crude oil (WTI) finished the US market week at $76.74 per barrel, having moved little in the last year.

The Economy

Last week, a large element in Monday's market mini-panic was the ongoing and apparently deeply held belief that the U.S. economy is in trouble. This week it became considerably more apparent that it is not. On the contrary, as people used to say, it is roaring along with "A full head of steam." Perhaps most amazing is that the U.S. economy is running close to its maximum capacity despite a 5%(+) Federal Reserve short-term rate. Historically, the interest rate increases enacted by the Federal Reserve in the last two years would have taken us into a serious recession, but in this case, they have been accompanied by exceptionally low unemployment rates and exceptionally high GDP growth.

This week, the Bureau of Labor Statists (BLS) announced the Consumer Price Index (CPI) had risen only 0.2% in the last month after falling 0.1% in June, 2.9% from a year ago, and has declined to an annualized rate of 1.04% over the past six months. That low inflation rate over the last six months was reinforced by the Producer Price Index (PPI) release, showing only a 0.1% rise in wholesale prices in July. Yet another confirmation came too from the Census Bureau. U.S. Import-Export Price Indexes, like the PPI, only rose 0.1% in July, following a 0.3% decline in June, while July's export prices rose 0.7%. Since we import a lot of what we consume and almost everything passes through a producer in the U.S. before it is purchased by consumers, it is clear that the upstream flows of goods and services support this disinflation trend. The Fed should be doing a victory dance as it strongly appears they are at or even below their 2% inflation goal.

High interest rates combined with rapidly falling inflation have historically signaled a recession dead ahead. Instead, we see that Retail Sales, as reported by the Bureau of Economic Analysis (BEA), rose a stunning 1% in July and have been growing at 2.7% for the last twelve months. Consumer spending is the driving force in our economy, and the biggest part of that is retail sales. A 2.7% growth rate is the opposite of a recession. In many ways, the NFIB Small

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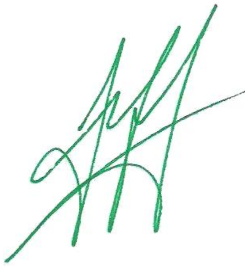
Business Optimism Index is another good indicator of where we are and where we are likely going. That obscure index stood at 91.5 in June but rose in July to 93.7, its highest reading in over two years.

So, why is our economy thriving despite high short-term interest rates and rapidly falling inflation? Historically, two elements have enabled an economy to do so: increases in productivity and the workforce. In the second quarter of this year, productivity grew at the astonishing rate of 2.3%, but that would not be enough to hold us out of recession and create the growth we have seen. The other element is growth in the workforce. The Federal Reserve Bank of Dallas and the Congressional Budget Office have published a report suggesting that immigration has driven the outsized growth in the labor force we have seen in the past few years as it offset the labor force reduction created by retiring baby boomers and the general aging of the native population. Their report states that a large portion of the U.S. labor force growth in the past few years has come from ready-to-work immigrants. This has happened before. The exceptional U.S. GDP growth in the late 1800s and into the first two decades of the 20th century was generated by immigration as was about 45% of the job growth from 2010 to 2019.

Until next week, we do solemnly pledge to do our best to do our duty to God and Country and obey the Fiduciary Law, as well as provide you with the best personal attention and service possible.

Your obedient servants,



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

Jacob A. McClure, CIMA®

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