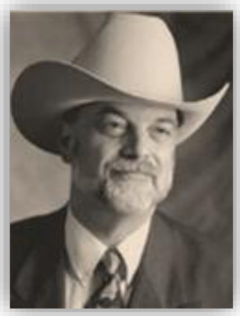

THE PERSONAL WEALTH COACH®

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TPWC Market and Economic Update

The Markets

It is September. That should come as no surprise, but for a host of reasons, stock traders seem to be often surprised as the ninth month arrives. That could be because the month's name literally means “the seventh.” It has become a tradition for September to start with a stock selloff. Contributing to the event is the myth that bad things happen more often in September than in other months. Add the Presidential election effect in which the media is saturated with negativity every four years, and a down market in early September becomes a thing. The S&P 500 (SPX) declined 4.25% in the first week of the downer month to close at 5408.42, leaving it up a mere 13.39% this year and 21.12% higher than last year. The other Index we follow to get what may be a better picture of the central part of the market, the CRSP US Mid Cap Value Index, fell 2.78% to 2753.36, up 9.83% this year and over 17% from a year ago. What reason did the pundits give for this decline? The reports we read blamed it on a poor manufacturing forecast and rising unemployment, which were both better than last month’s numbers. We think the real reason was that September caught the traders by surprise one more time.

The benchmark U.S. Treasury 10-year note ended the week yielding 3.72%, about 5% lower than last week. This sparked a rise in the bond market that nearly but not quite erased this year’s losses there. The 30-year T-bond rate dropped to 4.03%, while the annualized one-month rate stayed above 5% at 5.28%. West Texas Intermediate crude oil (WTI) joined in the swoon, declining 7.30% to $68.18 per barrel.

The Economy

We are clearly past the prime problem that has faced the economy all year, that of overheating and reigniting inflation. It is important to note that the economy's "slowing" headlines are misleading. Instead, we are seeing a reduction in the growth rate of the U.S. economy. Globally, there are worrisome signs of stagnation and even contraction, and most of that is because China, the second-largest importer of goods and services, appears to have a contraction underway. In the United States, manufacturing makes up about 10.3% of our Gross Domestic Product (GDP), while in China, manufacturing is about 26.18%, according to the World Bank. The U.S. economy is far more dependent on consumer spending for its growth. China has actively been trying to make consumer spending a significant part of its economy but with a serious real estate contraction and declining home prices, Chinese consumers are retrenching. That economic contraction in China affects the whole world, including us. Fortunately, our economy appears to have plenty of momentum to carry it through what looks more and more like the “soft landing” the Federal Reserve has been aiming for.

The Institute for Supply Management (ISM) U.S. Manufacturing Purchasing Manager’s Index (PMI) rose from last month’s 46.8 to 47.2 on a scale where 50 is the assumed divider between growth and contraction, however; ISM commentary noted that sentiment played a large role in their survey and recently any reading above 42.5 indicates expansion in the economy.

Real consumer spending in the U.S. posted its third straight month of healthy to strong growth in July. Real spending (after subtracting inflation) grew 0.4% in the month after rising 0.3% in June and appears to be stabilizing at a strong clip. More importantly, one of the strongest elements in that spending growth was durable goods, indicating buyers have confidence in their near future income and employment.

According to the Census Bureau, construction spending in the U.S. declined 0.3% in July. Still, the report noted that construction companies are working through backlogs, and spending was 6.7% higher than in July 2023. At the same time, the monthly Job Openings and Labor Turnover Survey (JOLTS) report from the Bureau of Labor Statistics noted that job openings, layoffs, and hires changed very little in July, but construction hiring was up. Meanwhile, the Labor Department reported that unemployment fell from 4.3% in July to 4.2% in August as employers hired a net 142,000 employees, about the number it takes to maintain a healthy employment situation.

What does all this mean? First, it is evidence that it was hot in August. Construction and some manufacturing slow down when it is hot. Second, it indicates that a lot of people take vacations in August. Third, and most importantly, it suggests that those areas have reached a reasonable, sustainable growth rate.

Until next week, we continue our pledge to provide caring, fiduciary service, advice, and portfolio management to our sole employers: our clients.

Your obedient servants,

Jeffrey W. McClure, CFP®
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