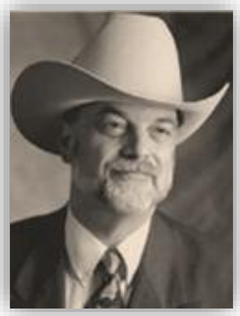


THE PERSONAL WEALTH COACH®

An SEC Registered Investment Adviser

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

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

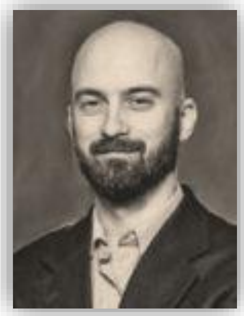
(254) 947-1111
(800) 914-7526

Serving Investors Since 1982

www.tpwc.com

jeff@tpwc.com

jake@tpwc.com



September 13, 2024

TPWC Market and Economic Update

The Markets

Our dear old familiar, if flawed, S&P 500 Stock Index (SPX) staged an impressive reversal of last week's sag, even topping it off on a Friday the 13th, rising 4.06% to 5626.02. That leaves the SPX 17.95% higher than it began this year and almost 26% higher than last year at this time. The other stock index we follow as it seems to provide a better indication of the mainstream market, the CRSP US Mid Cap Value Index, rose 2.60% for the week to 2824.82, is up 12.69% year-to-date, and over 21% higher than a year ago. On the bond side of the market, the benchmark ten-year U.S. Treasury note ended the week yielding 3.66%, about 1.6% lower than last week and almost 14% lower than last September. West Texas Intermediate crude oil (WTI) slipped upward 1.53% to $69.22 per barrel, about 21.6% lower than a year ago.

The Economy

There was no question about the headline economic news leader for the week. The Bureau of Labor Statistics (BLS) at the U.S. Labor Department (DOL) took the prize with the release of the August Consumer Price Index (CPI). The CPI rose by 0.2% in August and 2.5% during the last year, although the annual rate declined one-tenth of a percent from the previous month. Doom-sayer investors were spooked because the so-called "core" CPI, which excludes the often-volatile prices of food and fuel, rose 0.3% rather than last month's 0.2%. Since the reading rounded to the nearest tenth of a percent, that change could have been caused by a few hundredths of one percent shift, making the rise merely "noise" rather than a real change. The data continue to tell us that high inflation has been put to bed.

There are several relatively straightforward reasons why inflation is disappearing. First, inflation is either caused by too much money chasing too few items or a reduction in items available to buy while the money to buy them does not decline, or both. The consensus among economists is that the primary cause of the burst of inflation we experienced during and immediately following the COVID-19 pandemic was a shortage in goods available. At the same time, the U.S. economy did not slide into a severe recession, leaving demand close to constant, then growing. The source of that supply-side shortage can largely be traced to China, where the draconian measures to slow the spread of the pandemic effectively shut down supply chains for weeks at a time. The following goods surge overwhelmed transportation systems and took over a year to normalize. The supply contraction was compounded by Russia's invasion of Ukraine, cutting off some of the world's largest suppliers of grain and petroleum and causing food and fuel prices to soar. During the crisis, U.S. governmental and Federal Reserve actions kept the U.S. economy on a solid footing. Still, prices increased because our economy did not tank, keeping demand high while our suppliers were not adequately supplying. The Law of Supply and Demand remains immutable.

Ironically, probably the most significant danger was that if rising prices appeared to go unchecked by actions by the Fed, the expectation of future high inflation could take hold, as it did in the 1970s, triggered by a supply-side shock, as OPEC reduced the oil supply. When that happens, rising prices spiral upward as employers raise wages to keep up with inflation, creating a rising demand that takes on a life of its own. The Fed seems to have learned from history, and we appear to have dodged a severe recession while bringing inflation down to acceptable levels.

Affirming that conclusion, the BLS also reported U.S. Producer Price Index (PPI) for final demand, a measure of wholesale prices being charged to retail establishments, only rose 1.7% from a year ago. At the intermediate level, further up the supply chain, the Core Prices are only up 2.1% from last year. Moving yet further up the supply chain, U.S. import prices declined by 0.3% in August, suggesting even lower price increases and perhaps even price decreases in the future. Again, a significant cause of lower inflation appears to be China, where deflation is setting in, resulting in lower export prices. For better or worse, much of what is manufactured across the planet is made in China. As we attempt to wean ourselves from China's labor force and demand falls there, accompanied by a speculative collapse in real estate, deflation is the natural result.

Meanwhile, here in the U.S., the question is no longer whether the Fed will lower rates at its September meeting but how much lower they will go in the short and long term. New unemployment claims essentially held steady, staying close to their moving average and giving no indication that businesses are shrinking their workforce. From our perspective, the U.S. economy remains solid, and the reductions in economic data measures are merely a return to sustainable growth.

It pleases me to report that despite COVID-19, influenza outbreaks, and vacations, the TPWC Team remains ready, willing, and able to provide fiduciary portfolio management, advice, and world-class service to you, our clients, and sole employers!

Your obedient servants,

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

Jacob A. McClure, CIMA®