THE PERSONAL WEALTH COACH®

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September 20, 2024

TPWC Market and Economic Update

The Markets

After hitting a new record closing high of 5713.64 on Thursday, the S&P 500 Stock Index (SPX) slipped a bit on Friday, falling to 5702.55, but finished the week higher by 1.36%. That leaves our dear old SPX 19.55% higher than it began the year, up an astonishing 29.51% from a year ago, and having risen almost 31% in the last three years. The other stock index we follow, the CRSP US Mid Cap Value Index, as we believe it better reflects the heart of the stock market, rose 1.28% for the week and is up 14.13% since last September, closing at 2861.10.

Over on the U.S. Treasury market, the benchmark 10-year Treasury note ended the week yielding 3.73%, 1.91% higher than last week, while the short end of the Treasury curve, the 1-month T-bill yield dropped from last week's annualized 5.15% to 4.87% as the Fed cut rates. The 30-year Treasury bond also posted an interest rate increase, climbing from last week's 3.98% to 4.07%. West Texas Intermediate crude oil (WTI) at the close of U.S. trading was at $71.77 per barrel, reflecting prospects for an improving economy.

The Economy

This week, there was one economic subject to rule them all as the U.S. Federal Reserve Board (the Fed) reduced the Fed Funds Rate by half a percent to a target range between 4.75% and 5.00%. Based on the number of published words, one would think that something earthshaking and unexpected had happened instead of a highly expected event. Then, as the week progressed, more pundits published and broadcast endless commentary and speculation about that cut. The U.S. Treasury bills short-term rates promptly dropped from around 5.3% to 4.87%, not exactly a big move. At the same time, the longer-term twenty and thirty-year bonds saw an increase in their rates, disappointing people hoping for a decrease in mortgage rates.

What does all that mean? As usual, Fed Chair Jerome Powell explained it well during the post-Fed meeting press conference. He clearly stated, "Our economy is strong… and …with recalibration, … the labor market can be maintained in a context of moderate growth and inflation moving down to 2 percent." He stated that the Fed would be "reducing our securities holdings." In other words, the Fed sees little or no risk of a pending recession and anticipates further economic growth. By "reducing" its security holdings, he signaled that the Fed would continue selling bonds into the open market. Large-scale bond selling causes the market price of bonds to fall, effectively raising the interest rates on those bonds. What he said can be summarized as, "We are in the process of reducing short-term rates and raising longer-term rates," and that is what happened in the days that followed.

The Fed's actions were compounded by the growing perception that our economy will continue to expand, hopefully at a "reasonable" rate. That continued growth would then be reflected in an increasing demand for borrowed money in the form of corporate and municipal bonds, which would, in turn, raise longer-term rates and reduce the market value of existing bonds. The combination of lower short-term interest rates and the prospect of healthy economic expansion bodes well for corporate earnings, so after taking a day or so to digest that news, the stock market rose. Chairman Powell went on to state that the U.S. economy appears to be growing at an annualized rate of 2.2% per year while inflation is likely to be only 2.1% this year, very close to the Fed's goal of 2% per year. He also said he

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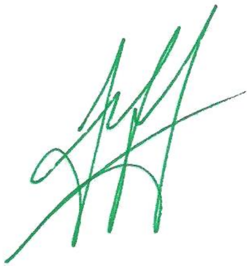
anticipated that the Fed Funds Rate would be down to 4.4% by the end of this year and 3.4% by the end of 2025. He also said he expected unemployment to rise to 4.4% and stabilize.

The bottom line is very much the same from our perspective. Given our infrastructure restrictions, the United States economy is growing about as fast as it can without producing unacceptable inflation. We also missed what was probably the most forecast recession in recent history because of three factors. First, we had high immigration rates, filling mainly low-level jobs, and those immigrants spent most of what they made, boosting our economy. Second, worker productivity has risen rapidly, allowing employers to create more with less. Finally, the Fed got it right.

There are still threats, primarily geopolitical and geoeconomic. According to a report written by Mario Draghi, the former EU chief, the European economy may be in for a long, sustained decline. China's economy remains in contraction and appears to be preparing for war. We live in an interdependent world and trade system and are not immune from other major powers' ills. Still, at least for the immediate future, American exceptionalism appears to remain intact.

Meanwhile, have a happy autumnal equinox as we here in Texas look forward to the formal end of summer and the hope of cooler days. Know, too, that we are here for you, ready to answer your questions and provide the best personalized fiduciary financial and investment advice, service, and assistance possible!

Your obedient servants,



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