THE PERSONAL WEALTH COACH®

An SEC Registered Investment Adviser

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TPWC Market and Economic Update

The Markets

The venerable S&P 500 Stock Index, our preferred if flawed primary indicator of the general state of U.S. publicly traded stocks, closed up 1.11% for the week at 5815.03, a record high. It is now up nearly 22% this year and an astonishing 32.86% from this time last year. The three-year run is finally slightly higher than one year, at 33.34%. The ten-year return is what strikes us as impressive, though. The SPX price return has averaged almost 12% per year over the last decade. The last time we saw average gains of that level for a decade, or more was in the 1990s. There may be a lesson in that. The other index we follow, the CRSP US Mid Cap Value Index, rose 0.18% for the week to close at 2891.21 and is up 15.33% this year.

Not only is the S&P 500 (SPX) on a bull market tear, regularly setting record highs, but the breadth of the bull has been growing, with 85% of the issues in the index now showing positive year-over-year growth. One of the sure signs that a bull market is living on borrowed time is a narrowing of the percentage of gainers, while a broadening set of gains suggests the bull has more room to run. Two other factors reinforce that favorable position. The SPX forward earnings estimates have been breaking records since September of 2023, and the quantity of money in money market mutual funds was at a record $6.5 trillion as October began. Historically, bull markets feed on cash in money market funds as interest rates decline. Again, the last time we saw this pattern was in the mid-1990s. The price to earnings ratio for the Index is a bit high at 21.6 but not as high as the 25.5 it hit in 1999. That bears watching.

In general, the Treasury and bond market went the other way, with the yield on the ten-year U.S. Treasury note yield rising 2.51% to 4.08%, up over 5% since last year. Bond prices fall as yields increase. West Texas Intermediate crude oil (WTI) rose about 1% to $75.54 per barrel and is about 10% less expensive than a year ago.

The Economy

This week's headline is that the U.S. economic news is getting boring. The Bureau of Labor Statistics (BLS) at the Labor Department has reported precisely the same monthly inflation rate, 0.2%, for three months. Moreover, the annual rate over the last twelve months appears to have held steady at 2.4%, twelve times the steady monthly rate. That yearly rate is the lowest trailing twelve-month inflation since 2021. It seems that disinflation is continuing. The Producer Price Index for final demand, again from the BLS, was unchanged in September and has risen only 1.8% in the last year. The PPI for final demand is a measure of the wholesale prices charged to retailers and tends to lead inflation numbers. Interestingly, the PPI for goods decreased 0.2% in September.

The U.S. economy continues to surprise as U.S. GDP growth charges forward at about a 3% annual rate, easily 50% higher than the pre-pandemic average. Since our economy is primarily driven by consumer spending, in a "normal" situation, we would expect a significant growth in consumer credit. Instead, so far this year, the average annualized increase in nominal credit has been 2.2%, less than average inflation. Why is this important? In a "normal" business cycle, consumers begin to borrow as we emerge from a recession, and particularly when there is high inflation, the accumulation of consumer credit grows at an unsustainable rate until credit cards and other loan sources become a severe burden. At that point, the consumer slows purchases, businesses begin to see declines in revenue, and the stage is set for the next recession. This time, consumers have held their borrowing to low levels and have not seen their

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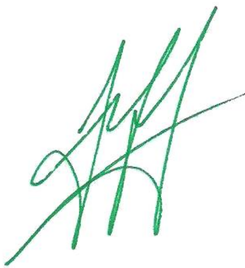
debt grow as fast as inflation, effectively lowering their debt load rather than raising it. Today, the Chief Financial Officer of J.P. Morgan stated that the much sought and rarely accomplished economic soft landing has been achieved.

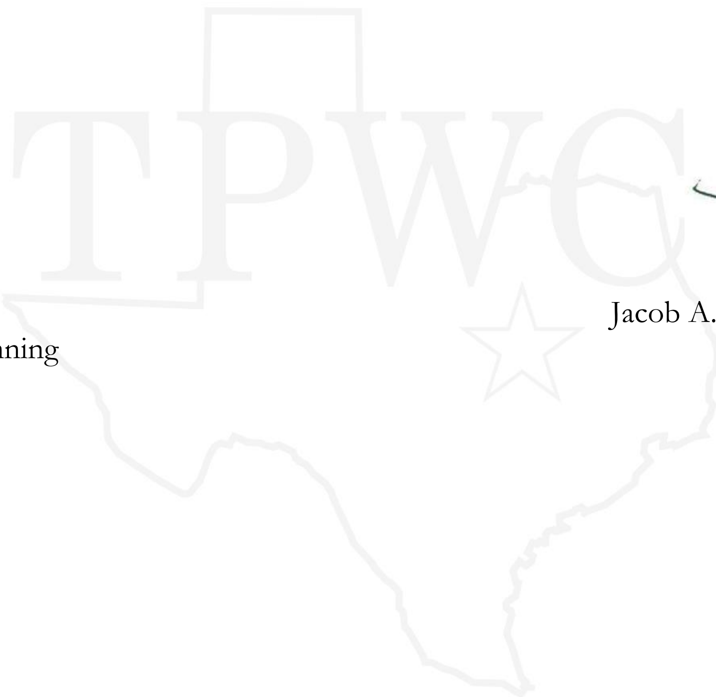
The rest of the world is not in as good a position. Germany, the leading economy in the European Union and a large exporter downgraded its growth forecast and now officially expects to be in recession as its Economy Minister warned that its economy would contract by about 0.2% this year. Consumer demand remains depressed and its primary export customer, China, is experiencing deflation and a probable economic contraction.

Once again, we must report that the U.S. economy is in excellent condition and seems to be rolling along with plenty of fuel and excellent momentum.

Until next week, we remain steadfastly ready to provide fiduciary investment advice, portfolio management, and full service to you, our clients and sole employers.

Your obedient servants,





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