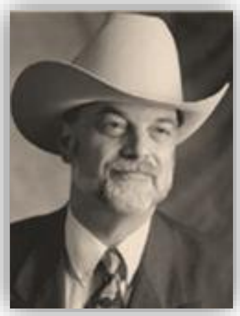

THE PERSONAL WEALTH COACH®

An SEC Registered Investment Adviser

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October 18, 2024

TPWC Market and Economic Update

The Markets

Our dear old S&P 500 Stock Index (SPX) had an interesting week as a chip machine maker reported declining sales midweek causing a plunge in the Index, but the world's largest chip maker then came in with a greater than 50% increase in business and traders determined the world was not coming to an end after all. At the end of the week, the SPX had gained 0.85% to close at 5864.67, leaving it up 22.95% so far this year, almost 36% from this time last year, and about 31% from three years ago. The other index we follow as we believe it gives us a better picture of what the mainstream market is doing, the CRSP U.S. Mid Cap Value Index rose1.87% for the week, closing at 2945.29, and is up about 17.5% this year and 31.59% in the last twelve months.

Over in the debt side of the market, which incidentally is as large as the stock market in the U.S., the benchmark ten-year U.S. Treasury note ended the week with a 4.08% yield, the same as last week. The one-month T-bill has the highest yield on the Treasury yield curve, paying an annualized 4.92% with the thirty-year Treasury bond still yielding 4.38%. Yes, that is still upside down and backwards, but we've grown used to it. West Texas Intermediate crude oil, the benchmark for the smelly stuff here in the U.S., finished the week at $69.34 per barrel, about 8.57% less expensive than last week.

The Economy

The economic surprise of the week came from the Census Bureau as it reported on monthly retail sales. The pundits were expecting to see a mild decline but instead were presented with a monthly increase of 0.4%. Considering that over the past year, sales have only risen 1.4%, the rise was impressive. That number bumped up the Atlanta Federal Reserve Bank's GDP Now estimate for the third quarter to an annualized rate of 3.4%. Even the most pessimistic economists are now forecasting a 2.0% annualized GDP growth rate this quarter.

The current global economic situation reminds us of the 1990s when the Competitiveness Policy Council published a report forecasting that the United States would lag both Europe and Japan through the end of the 20th century. The opposite turned out to be true. Japan, which then was as much of a juggernaut as China was recently, seemed to be taking over everywhere and Europe was charging ahead with an export-based model that surely would eclipse the U.S. consumer-based economy. Indeed, the dotcom bust at the end of the 1990s was a shock, but America has outpaced the rest of the world in the three and a half decades since. In 1990, the U.S. produced about 40% of the total G7, advanced economies' GDP. Fast forward to the present, and we are producing nearly 60%. On a per-person basis, American economic production is now about 40% higher than in Western Europe and Canada, and 60% higher than in Japan. In our lowest wage state, Mississippi, average wages are higher than the averages in Britian, Canada, and Germany. The International Monetary Fund recently noted that our economy is the only one in the G-20 group of developed and large developing countries whose output and employment are higher than pre-pandemic expectations.

A decade ago, it was the Chinese who were seen traveling the world and buying up properties in Europe and elsewhere, and much worry was expressed that they would soon dominate across the world and by now be the world's largest economy. Today it is the Americans that are buying up properties in Europe as the economic GDP of the People's

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Republic of China (PRC) has fallen to about 65% the size of ours. What happened? First, the productivity of the average American worker has grown a whopping 73% since 1990 and he or she now produces about $171,000 of output per worker each year, compared with $120,000 in the Euro Zone, $118,000 in the U.K. and $96,000 in Japan. Again, how did that happen? Americans are investors. Our investment in our own non-residential economy has been running at about 17% of GDP per year. In nominal terms, we also dramatically outspend the rest of the world on research and development (R&D). Among large economies only China has a higher percentage of GDP dedicated to R&D, and because their economy is so much smaller than ours, in nominal terms we still are well ahead. Another factor is mobility. About 5% of workers in the United States change employers each quarter, far more than any other large economy. That employee churn tends to move workers to more productive positions and force companies to compete for workers, driving them to greater efficiencies.

As usual, we here at The Personal Wealth Coach® see our economy as exceptional and roaring ahead into the near future, but perhaps even more importantly, over the longer-term, our peculiar economic culture looks more and more like the 21st century will be possibly the best century in our history, at least so far.
(Data credit to The Economist. Report: The envy of the world.)

Until next week, we pledge to continue to work hard to do our best at providing the most responsive service and fiduciary investment advice and management to you, our clients, and sole employers.

Your obedient servants,

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

Jacob A. McClure, CIMA®

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