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

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TPWC Market and Economic Update

The Markets

The S&P 500 Stock Index (SPX), the most widely used if perhaps flawed, benchmark of U.S. Stock valuations, had a "meh" week, falling 0.96% to 5808.12. Still, it remains almost 22% higher than when the year started and up 38.73% from last year. Even its three-year gain is substantial at 27.19%. The same is not true of overseas markets, as the U.S. exchanges and indexes leave them in the dirt. For example, this year, the S&P Europe 350, a rough equivalent of our SPX, is up only 8.51%. Yes, it has gained almost 19% in the last twelve months but has only a 12.10% total gain in the previous three years. Something different is happening here in America, leaving the rest of the world behind. More on that below. The other U.S. equity benchmark we follow, the CRSP U.S. Mid Cap Value Index, slipped backward 2.26% for the week to 2778.68 but remains up 14.83% year to date and is over 33% higher than a year ago.

The benchmark ten-year U.S. Treasury note ended the week with a yield of 4.25% as interest rates for the next decade increased almost 10% in the last six weeks. The highest paying maturity remains the one-month T-bill, yielding an annualized 4.89%, while the thirty-year T-bond only offered 4.51%. The good news is that the curve from three years to 20 years, the heart of the Treasury yield curve, has turned positive, suggesting that the bond market anticipates good intermediate-term growth in the U.S. economy. West Texas Intermediate crude oil (WTI) rose 2.05% to $71.63 but remained over 16% lower than a year ago.

The Economy

There is not a lot of exciting economic news to report this week. The drama seems to be elsewhere. The Census Bureau reported that the sales of new single-family houses in September rose 4.1% from August. Manufactured durable goods orders fell 0.8%, but after rising nearly 10% in July, some slippage was expected. Much of that decline was at Boeing, which will continue to affect the labor, manufacturing, and export statistics until the strike ends. Jobless claims, an indicator of business activity, fell by 15,000 to 227,000 in the week that ended on the 19th as layoffs from the two hurricanes dissipated more rapidly than most economists expected. In an interesting development, credit card debt is expanding at a surprisingly low rate, according to Moody's Analytics.

In its latest global scorecard, the International Monetary Fund (IMF) upgraded its official estimate of our economy, placing the U.S. in the number one spot among the Group of Seven major advanced economies. Its new estimate is that our economy will have grown 2.5% from a year ago; however, the IMF has consistently underestimated the U.S. economy for the last several years. In contrast, Moody's Economy.com, probably the most consistently accurate forecaster, estimates the third quarter GDP growth (annualized) to be 3.5%, raising our annual rate to 2.8%. The euro area's economy is expected to grow 1.2% this year, while advanced economies are expected to have an average 1.9% growth. The People's Republic of China (PRC) is lined up for a 4.5% annual growth, but because the PRC economy is only about 65% the size of ours, that equates to 2.9% in actual nominal growth. China is considered a developing economy because much of its population is still transitioning from "undeveloped" manual agriculture to a modern, industrialized economy. As such, it should grow economically much faster than a developed economy like the United States.

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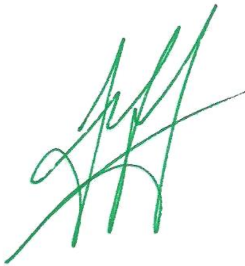
So, to what does the IMF credit our exceptional growth? The simple answer is our astonishingly high productivity growth. Again, according to the IMF, the cause of that is our non-residential investment rate. That higher productivity is also why U.S. worker wages have been rising faster than inflation for the past several years. Even as inflation has fallen to around 2%, wages continue to increase at around 4%. U.S. gross fixed capital formation, investment in tangible, fixed structures, machinery, software, and equipment, will increase this year by 4.5% from 2023, triple the rate for all advanced economies and our projected investment growth rate is 3.3%. Contrast that with the IMF estimate that Germany's investment rate is projected to fall 2.7% this year after falling 1.2% last year.

Last but not least, corporate earnings and profit margins have held up remarkably well as the previous quarter's results are all in, and we head into the last quarter of the year. Retail sales, the most significant single component of our GDP, continue to surprise to the upside despite the lower-than-normal growth in credit card and consumer debt. Once again, the productivity of the American worker seems to be the cause. Once more, we are forced to report that the economy of the United States is on solid ground and appears to be operating at near full capacity with no indications of slowing.

Until next week, we pledge to do our best to do our fiduciary duty and more for 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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