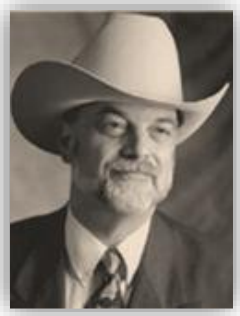

THE PERSONAL WEALTH COACH®

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November 1, 2024

TPWC Market and Economic Update

The Markets

The U.S. stock market, at least as represented by the Standard and Poor's 500 Stock Index (SPX), had some slippage this week as the Index fell 1.37% to 5728.80 as some of the "Magnificent Seven" posted reduced forecasts even though their current earnings generally beat estimates. The SPX held on to a gain of over 20% this year and is up over 35% in the last twelve months, although just 24% higher than it was three years ago. Our other market indicator, the more mainstream CRSP US Mid Cap Value Index also declined, but only 0.88%, closing at 2853.45, up just over 30% in the last year.

The bond market has shown considerably more movement than we have seen in stocks recently. Unfortunately for bond holders, the movement has been down, as bond prices fall when interest rates (yields) rise. The benchmark U.S. Treasury ten-year note ended the week yielding 4.37%, up from an interest rate of 3.88% at the beginning of 2024. Reflecting the rise in longer-term interest rates, the S&P 500 Bond Index (total return) has declined 2.85% in the last month. As the new month began, short-term Treasuries were still providing an annualized yield of around 4.7% while the thirty-year bond was only paying 4.57%. West Texas Intermediate crude oil (WTI) prices continued their slow decline and at the end of the business day was $69.56 per barrel.

The Economy

This week, the Bureau of Economic Analysis (BEA) announced that the U.S. economy was growing at a 2.8% annualized rate in the third quarter. Most economists agreed in the past that the speed limit for our economy without generating high inflation was about 2%. Obviously, someone forgot to tell the economy, because our average annualized GDP growth rate per quarter for the last two years has been a whopping 3.0%. A combination of an amazing growth in worker productivity and an abundant labor supply seems to be the underlying reason. The open question is whether this can continue and if so, for how long? If you have tried to drive between cities, you probably would agree with us that the highways are at maximum capacity. Air cargo and the railroads are at or close to maximum usage as well. Only time will tell, but we are happy to enjoy this rejuvenated economy while we can.

Reuters reported that consumer spending, which is more than two-thirds of our economy, rose 3.7% in last quarter, adding 2.46% to our GDP. Household net worth rose, and personal income increased by $221.3 billion last quarter. At the same time, the price index for gross domestic purchases (PCE) was reported to have risen only 2.1% over the last year while average income was up 3.1%. That is a significant reduction from the 2.4% annual inflation reported in the second quarter. The GDP number was reduced 1.5 points as we upped our imports as businesses and individuals sought to build up inventories in fear of tariff increases next year. It was also negatively affected by the two major hurricanes that swept across the Southeast.

Unemployment claims, an indicator of business activity, fell to 216,000 last month, down from 227,000 in August. The one dark spot in this week's reports was that employers only hired about 12,000 more workers in the month, as opposed to the 223,000 in August. The Bureau of Labor Statistics (BLS) at the Labor Department, attributed the slowdown in hiring to the hurricanes, the strike at Boeing, and business uncertainty about tariffs and taxes. Still, the unemployment rate remained constant at 4.1%, about what most economists consider to be "full employment."

The dark side of our economic situation is also showing. The broad stock market has largely gone nowhere following the Fed rate cut last month. At the same time, the bond market is declining. The underlying reason can be found in the law of supply and demand. The Treasury is planning to issue (sell) $1.3 trillion worth of bonds over the next six months. When the supply of bonds is high and rising, the price of bonds will decline unless there is an increase in demand. Adding to that negative effect on bond prices is the campaign promises from the two presidential candidates. Vice President Harris' promises have been estimated by the Committee for a Responsible Federal Budget (CRFB) to add about $3.95 trillion to the deficit over the next ten years. Even that is dwarfed by President Trump's promises of lower taxes and a dramatic increase in spending which, if enacted, would add about $7.75 trillion to the national debt. Either way, that is a lot of bonds to be issued, so expect higher rates no matter who wins.

In short, the U.S. economy is still roaring along at about as fast as it could possibly go and shows no signs yet of slowing down.

Until next week, know that we stand ready to provide high quality service, assistance, and fiduciary advice and portfolio management every working day for you, our clients and sole employers. And… we are always delighted to hear your comments and attempt to answer your questions.

Your obedient servants,

Jeffrey W. McClure, CFP®
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