THE PERSONAL WEALTH COACH®

An SEC Registered Investment Adviser

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TPWC Market and Economic Update

The Markets

The old and venerable S&P 500 Stock Index (SPX), serving as the prime indicator of equity prices in the United States, had a good week. It rose 1.68%, offsetting last week's losses, to close at 5969.34. It has risen over 25% this year, up 31% in the last year and 27% in three years. Our other stock market indicator, the CRSP US Mid Cap Value Index, rose 2.57% for the week to close at 3002.27, a record high, and is up almost 20% this year and 29% since this time last year.

The benchmark ten-year T-note yield fell about half a percent, ending the week paying an annualized rate of 4.41%, 13.66% higher than when the year began. The shortest-term rates rose this week as the one-month T-bill climbed to an annualized 4.72%. Longer-term rates continued their slow rise, with the 20-year Treasury bond yielding 4.67%. West Texas Intermediate crude oil (WTI) also increased to $71.14 per barrel but traded about 7.73% lower than a year ago.

The Economy

The U.S. economy continued to expand as the S&P Global Flash US Composite Purchaser Managers Index (PMI) rose to 55.3 in November from October's 54.1 on a scale where numbers above 50 indicate expansion. Services, as usual, led the way, with the US Services PMI at 57.0, a 32-month high, and the US Manufacturing PMI at 48.8, up a bit from October's 48.5 but still in contraction territory. US companies reduced their workforce numbers for the fourth consecutive month as they worked through the backlogs of orders accumulated over the past year. The divergence between the service and manufacturing is among the most significant seen since data was first collected in 2009. Service orders continued to grow while new factory orders declined. Despite the falling numbers in manufacturing, employers continued to increase employment on that side of the economy while service employers decreased their payrolls.

Before the election, Redfin Corp. projected mortgage rates would fall to 6.1% next year, but now it is estimating rates will remain at 6.8% to 7%. Their chief economist, Daryl Fairweather, cited the likelihood of tariffs and increased deficits keeping rates relatively high into the foreseeable future. Mark Zandi, chief economist at Moody's Analytics, seconded that forecast. Combined with the concern that a labor shortage will emerge in the next few years, those factors may keep the housing market from growing. Barclays Plc raised inflation projections for the next two years and lowered its outlook for economic growth, again because of the potential of higher tariffs and immigration restrictions.

On the other side of the Atlantic, things were not so pleasant as the composite EU PMI fell to a 10-month low of 48.1. Respondents suggested that the prospect of high tariffs would directly impact the export-oriented European economies of Germany and France and have a secondary impact as the Chinese economy, Europe's most significant export customer, slowed. The weaker business outlook caused the euro to fall more than one percent to $1.033, its weakest level since 2022 before it recovered to $1.040. The Eurozone economy expanded at just a 0.4 percent rate in the third quarter and is now expected to stagnate or decline in the fourth quarter of this year and the first quarter of 2025.

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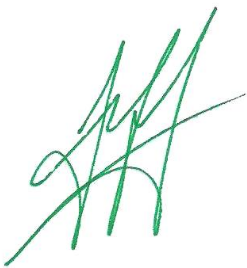
Here in the US, this expansion is proving more and more unusual. Consumers are keeping their debt levels low and not running up their credit card balances as they have historically. As a result, the credit card delinquency rate is below the long-term trend and decreasing. Consumer debt is growing but at a rate below that of inflation. Because of that, on an inflation-adjusted basis, debt is declining, with credit card debt almost 13 percent below its peak. One of the reasons is that wages are rising faster than inflation, even as consumers have been cutting back on expensive habits.

One concern continues to grow as the mountain of federal debt has increased this year at a rate approximately equal to the borrowing binge we saw during the pandemic. If the new administration enacts the promised tax cuts and spending increases, we will test the limits of how much federal debt even the U.S. economy can support. One of the reasons longer-term interest rates have continued to rise is the anticipation of increased borrowing by the federal government. While the world is still quite happy loaning all the money we want to borrow, the projected deficit and federal debt would increase exponentially if those promised policies are enacted. The fear is that, at some point, interest rates will have to rise proportionally and create a debt spiral in which the government will need to accelerate its borrowing to pay the interest on its debt and create a crisis. At the same time, high, guaranteed rates on government bonds could become more attractive than stocks, leading to a stock market selloff.

For the moment, the US economy continues on a tear, charging ahead at full speed, and as long as we are worried about the future, history suggests that we are in good shape. It is only when we stop worrying that we are in real danger.

Until next week, enjoy your Thanksgiving holiday, and remember to give sincere thanks for this beautiful country, the robust economy, and the peace and prosperity we enjoy. Know, too, that we continue to improve the service, portfolio management, and fiduciary advice we provide to you, our clients, and our sole employers.

Your obedient servants,



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