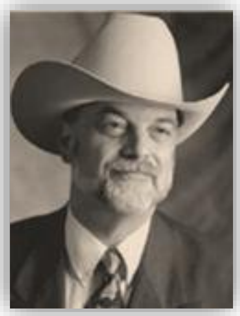

THE PERSONAL WEALTH COACH®

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TPWC Market and Economic Update

The Markets

As represented by the Standard and Poor's 500 Stock Index (SPX), the U.S. stock market ended 2024 like a lamb but almost made up for it in the first trading days of the new year. The SPX was down 0.48% for the week after falling nearly 1.5% in the last two and rising almost 1% in the first two trading days of the new year. The venerable SPX is now over 26% higher than a year ago and up nearly 24% in the last three years. The other stock market indicator we follow, the CRSP US Mid Cap Value Index, declined a mild 0.32% for the week to 2806.41 but is 13% higher than a year ago.

The U.S. interest rate benchmark, the 10-year U.S. Treasury note yield, fell nearly half a percent for the week to close at 4.60%, but that yield was almost 18% higher than a year ago when the rate was 3.91% and is a whopping 182% higher than three years ago when it was only 1.63%. As the market value of notes and bonds fall as interest rates rise, the total return of bonds has been less than ideal recently with the total return of the Bloomberg US Aggregate Bond Index declining by over 7% in the last three years. Ultra short-term yields in Treasury bills continue to reward Treasury money market fund investors, with the one-month T-bill still yielding 4.44%. West Texas Intermediate crude oil (WTI) finished the U.S. trading week at $74.04 per barrel, up 5.43% from last Friday but only 1.84% higher than a year ago and 2.68% lower than three years ago.

The Economy

The American economy has been experiencing a burst of productivity growth over the past few years; however, the last two weeks seem to us to be likely to put a dent in that growth, albeit one that may not show up in the official statistics as the effect is spread over two years. Christmas and New Year's Day fell on Wednesdays and effectively gutted the week. Productivity has long been observed to be relatively poor on the first and last days of the workweek, which is to say, on the day before a day off and the day when people return to work. Every day of the past two weeks falls into that low-productivity zone.

With little in the way of economic reports again this week, we at least can look back on 2024 and attempt to gain some perspective on what has happened. The U.S. economy had a good year with average real economic growth above 2.4%, and the annualized growth rate looks like it will be around 3% for the last two quarters. The broad stock market responded by producing an astonishing nearly 26% appreciation. The previous two years have seen the greatest total returns in the last 25 years. That trend was accompanied by the strongest labor market since the late 1960s, as the unemployment rate has held at or below 4.3% for just over three years.

At the same time, there are notable clouds on the horizon as consumer confidence took an unusually large decline in December, falling from 112.8 to 104.7, according to the Conference Board. Notably, both business and consumer confidence, after soaring immediately after the election, appear to be sobering up as the probable effects of the new administration's economic policies sink in. The consensus was that economic growth would slow in 2025 despite a generally positive view of the current labor market. Another dark area is the gradual decline in durable goods orders reported by the Census Bureau. We have often opined that durable goods orders are among the more reliable indicators of where the economy will go over the next six months to a year. When businesses and families feel confident and believe revenue will grow, they are more willing to make longer-term purchases and, conversely, less likely to do so when they suspect things may not be so rosy in the coming months. A silver lining buried in that report was that orders for core capital goods, a good indicator of business investment, rose 0.7% as shipments rose 0.5% for the month. However, for the year, core capital goods purchases were down by half a percent. Those changes also appeared in the considerable increase in the trade deficit figures as businesses accelerated import orders to get ahead of the promised tariffs.

In the general "good news is sometimes bad news" category, the value of the U.S. dollar jumped to a two-year high as it now takes only $1.03 to purchase one euro. The good news is that if you are visiting Europe, your dollar buys more, but the bad news is that a rising dollar makes goods manufactured in the U.S. more expensive, which tends to reduce export sales and increase imports.

Once more, as we transition from 2024 to 2025, we are forced to report that the U.S. economy is in great shape as it bumps up against infrastructure restrictions with the highest nominal large, industrialized country's growth on earth.

We at the Personal Wealth Coach wish you the best and most prosperous new year as we continue to provide fiduciary investment advice and management for you, our clients, and sole employers.

Your obedient servants,

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

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