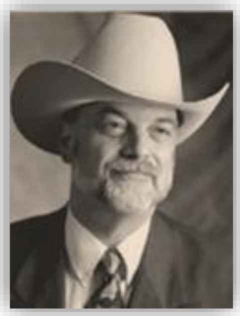

THE PERSONAL WEALTH COACH®

An SEC Registered Investment Adviser

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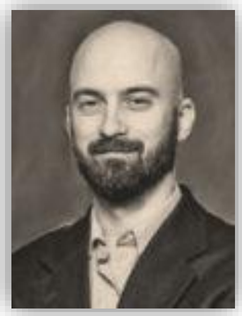

January 10, 2025

TPWC Market and Economic Update

The Markets

Our dear old and slightly irrational Standard and Poor's 500 Stock Index (SPX) continued its contraction as the year wore on, declining 1.94% for the week to 5827.04. It has declined 0.93% this year but remains up 21.82% from a year ago. It remains almost 25% higher than three years ago and 78% higher over the past five years. The other, we believe more representative of the broad market, index we follow, the CRSP US Mid Cap Value Index, fell 1.93% for the week to 2752.18 but is up 10.14% from last year at this time. Once more, the primary difference between the two measures is the "magnificent-seven" stocks perceived as "AI" related.

The benchmark 10-year U.S. Treasury note finished the week with a yield of 4.77%, while the ultra-short-term one-month Treasury bill remained nearly constant, yielding an annualized rate of 4.42%. The U.S. Treasury yield curve is now sloped positively from the one-year maturity T-bill at 4.25% to the 5.04% rate paid by the 20-year T-bond. As we have forecast for the past couple of years, longer-term bonds are declining in market value as interest rates climb beyond the shortest of maturities. West-Texas Intermediate crude oil rose 3.5% for the week to $76.63, its highest price in almost a year.

The Economy

Perhaps the most significant economic news in the first whole week of 2025 came in two reports about employment. Among the developed economies of the world, ours is different. Our resident consumers drive the growth of the economy, and because of that, we are far less dependent on other nations buying our goods and services. Almost all of that consumer spending relies on those consumers having someone in their family employed. Thus, employment is the prime driving factor in the U.S. economy.

The first report was from the Labor Department, specifically our beloved U.S. Bureau of Labor Statistics (BLS) in its monthly Employment Situation Summary. The BLS reported that seasonally adjusted nonfarm payroll employment increased by 256,000 in December based on their establishment survey and that unemployment declined to 4.1%. At the same time, the number of "permanent job losers" is a statistic that has stubbornly held at a higher than-desired level for over a year, fell by 164,000 to 1.7 million as the number of long-term unemployed, jobless for more than 27 weeks, rose by 168,000 to 1.6 million.

Of all those eligible to be employed in the United States, 60% have jobs. Through the 1990s, the labor participation rate was pretty steady at 67%, but as the baby boomers began to retire, it dropped to about 60% and held there. So, if we have been adding millions of jobs to our economy over the past several years, where are all the workers coming from? The simple answer is that a very high percentage of foreign-born adults entering the United States have taken jobs. The labor participation rate for foreign-born workers at 67% is higher than for native-born workers. That influx of workers is likely one of the primary reasons we did not experience a recession last year, while countries where there was little immigration saw recessions.

Meanwhile, a long-term change in the American workforce is underway that parallels that of the third decade of the 20th century. According to the Yardeni economics firm, as the 20th century began, about 35% of non-military

Americans were classified as "farm workers." Still, a century later, that percentage had collapsed to around 2% in a process known as "industrialization." "Blue-collar," primarily industrial, rose to about 40% of American labor in 1962. Still, recently, that number had fallen by half, to 20%, as domestic manufacturing has declined, and automation has taken a large and growing share of what had been blue-collar jobs. So, if we employ many multiples of the workers we had in those past decades, where are the jobs appearing? While service employment has risen from about 8% of the workforce since the 20th century to its current level of about 12%, the biggest gain has been in professionals. As the 20th century began, about 12% of Americans worked in a commonly defined "profession." Today, roughly 44% of the American workforce is in some form of professional employment. That profound shift in worker demographics, known as "deindustrialization," has and is producing a dramatic increase in the median U.S. standard of living and household income. Today, as we saw a century ago, foreign-born workers comprise a disproportionate percentage of the remaining agricultural and industrial workers, while the native-born workforce has moved up into professional and supervisory roles.

Yet again, we must declare that the U.S. economy is on a significant roll as nearly all cylinders are firing, and economic growth, both long and short-term, is continuing at about the maximum rate possible given our infrastructure limitations.

Until next week, stay warm and rest assured that we are steadily adhering to our fiduciary duties and ready to respond to your queries. We look forward to serving you, our clients, and sole employers as the new year unfolds.

Your obedient servants,

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