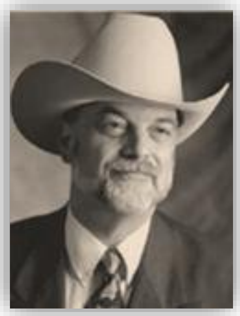

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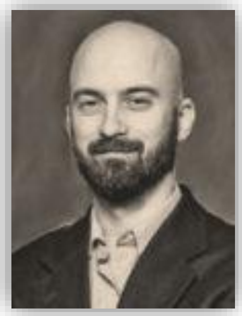

January 17, 2025

TPWC Market and Economic Update

The Markets

It was a good week for stocks and those who own them. Our dearly beloved S&P 500 Stock Index (SPX) rose 2.91% to 5996.56, closing in on the elusive 6000 level that seems to have scared off investors each time it has been breached in the last several months. The SPX is now up nearly 2% this year and month, 26.53% higher than at this time last year, and over 31% higher than it was three years ago. The other index we follow, the CRSP Mid Cap Value Index, joined the party as it rose 4.37% this week. It closed at 2872.50, and is up about 2.7% this year, and 17.77% in a year.

Although the yield on the benchmark 10-year U.S. Treasury note fell from 4.77% to 4.61%, we still have to go back to 2007 to find rates this high. Given the immense predicted borrowing demand at the Federal level and across the economy as businesses expand, we suspect higher longer-term rates are likely over the next few years. There certainly is good news there as well at least for Treasury money market fund investors. The one-month U.S. Treasury bill has been remarkably steady this year and ended the week at an annualized yield of 4.43%. Contributing to the top-line inflation numbers discussed below, the West Texas Intermediate crude oil (WTI) price rose another 1.83% this week to close its U.S. market week at $78.03.

The Economy

One of our favorite government agencies, the Bureau of Labor Statistics (BLS) at the Labor Department, led this week's economic news with its monthly Consumer Price Index (CPI) release. Even though the CPI is not as accurate as the Commerce Department's PCE Index, it is better known and published and probably affects consumer attitudes more. From one perspective, the CPI report was alarming, but like many such issues, carefully examining the details provided a different impression. The seasonally adjusted CPI for all Urban Consumers (CPI-U) rose 0.4% in December, about a 4.9% annual rate. Still, the BLS reported that the Index had only increased 2.9% over the last 12 months. Better than the 12-month number was the realization that if the often-volatile prices of food and fuel are removed from the equation, the so-called "core" CPI only rose 0.2% in December, an annualized rate of about 2.5%. If you find all that confusing, you aren't alone. The headline numbers of such reports commonly are less useful than they appear. The bottom line is that inflation is far from dead but does appear to be in a slow decline.

The Atlanta Federal Reserve Bank's GDPNow tracking model is predicting a 3% GDP growth rate for the fourth quarter of last year. The primary driving force in that increased forecast was the Census Bureau's report on December's monthly retail sales. The bean counters at Census announced today (Friday) that their seasonally adjusted advance estimate put U.S. retail and food services sales up 0.4% for the month and 3.9% higher than sales in December 2023. In our consumer-driven economy, a nearly 4% rise in sales is nothing but good news.

Things just got better as we reviewed the week's reports. The National Federation of Independent Businesses survey of small business owners showed rising optimism and indicated intent to expand hiring. December's Producer Price Index, a measure of wholesale prices charged to retailers, rose only 0.2%, at about a 2.5% annualized rate.

At the same time, there are indicators that, while they may not suggest an immediate danger, should be monitored. The federal deficits remained very high and are probably unsustainable in the long term. Federal net interest outlays rose to $908 billion for 2024, higher than defense spending. Historically, the U.S. has run high deficits during economic downturns but reduced the total debt in good times. We did run the deficit up during the COVID outbreak and in the ensuing recession, but here, in the midst of one of the greatest economic booms in our country's history, there seems to be a bipartisan intent to keep on borrowing far more than our government receives in revenues. As a percentage of GDP, current and planned federal borrowing for 2025 exceeds anything we have seen since World War II other than in recessions.

While they may seem far away and of no great consequence, the economies of Germany and China exhibit signs of stress. Germany has logged two consecutive years of contraction, declining 0.3% in 2023 and 0.2% in 2024. While China's official growth for 2024 was reported to be a full 5%, the exact number the PRC government had targeted, a recent speech by a senior Chinese economist suggested that number may be more political than economic. Analysis of Chinese raw material imports and anecdotal accounts within the country suggest it may be in a recession with a contracting economy rather than growing at 5% annually. We live in a very interconnected world, and a prolonged contraction in the world's second and third-largest economies will likely have widespread consequences.

Still, the bottom line is that the economy of these United States of America is in excellent condition running neither too hot nor too cold.

Until next week, we continue to be devoted to our clients' financial and investment well-being as we pursue our duties as your fiduciaries. Please feel free to email, write, or call with any questions.

Your obedient servants,

Jeffrey W. McClure, CFP®
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