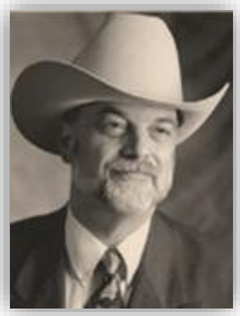

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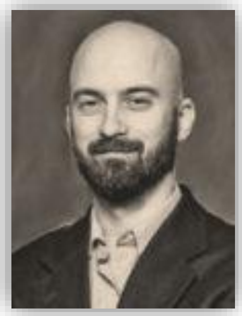

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January 24, 2025

TPWC Market and Economic Update

The Markets

As represented by the S&P 500 Stock Index (SPX), the U.S. stock market continued its new-year celebration this week as the Index rose 1.74% to 6101.24. It appears to have vanquished the fearsome 6000 barrier at the opening on Wednesday and is not looking back. The SPX is now up 3.73% this year and month, over 25% higher than a year ago, and up an astounding 38% over the last three years. Our other followed index, the CRSP US Mid Cap Value Index, rose 0.35% to 2882.49 for the week and is up 3% this year and 18% from a year ago.

On the other, much larger, side of the U.S. securities markets, the benchmark 10-year U.S. Treasury note ended the week with a yield of 4.63%, about 11% higher than a year ago and over 1% higher this year. At the shortest end of the Treasury yield curve, the one-month T-bill yield rose during the week to close with an annualized yield of 4.45%. The average 30-year fixed U.S. mortgage rose to 7.11% from last week's 7.09%, according to Mortgage News Daily. The price per barrel of West Texas Intermediate crude oil (WTI) ended the week at $74.64, about the same as a year ago.

The Economy

While there were no blockbuster economic reports this week, there were plenty of indications of where things are going if you know where to look. Sometimes, the most significant news in economics is found in the later appearing, mundane announcements. Weekly earnings, hires, fires, and jobless claims tend to be headline grabbers, but the Bureau of Labor Statistics "Usual Weekly Earnings of Wage and Salary Workers" for the last quarter is where the meat is. Median weekly earnings for the fourth quarter paid to the 120.3 million U.S. workers were $1,192 (not seasonally adjusted). This was 4.1% higher than a year ago, while the Consumer Price Index (CPI) rose only 2.7%. That equates to an after-inflation buying power increase of about 3.4%, a number very close to the U.S. GDP growth in the same period, as it should be. Subtract federal borrowing and the balance of trade deficit from that wage-growth number, and you have a good guess for annual economic growth in the U.S.

Our economy is exceptional because it is the only major developed economy in the world to be almost entirely self-sufficient. Only about 11% of our GDP is the result of selling goods and services to others compared with a global average of 46%, according to Statista.com. Theoretically, we import far more than we export; however, if our trade imbalance was as significant as it is reported to have been over the last half-century, we should be bankrupt. Instead, we are inarguably the wealthiest major economy on the planet. Those facts are why the stock market is unfazed by tariff threats.

If, and this is a big "if," President Trump imposes large-scale tariffs and other countries retaliate with counter-tariffs, there is a very high probability that domestic prices for tariffed items will rise, but not just on imported goods and services. When, in his last administration, President Trump imposed tariffs on washing machines, domestic producers raised their prices to match those charged for imported machines and, as a result, did not significantly change the percentage of imports. Interestingly, the cost of clothes dryers rose by about the same rate. Still, because we only import about 14% of our GDP, the total U.S. economic change will likely be minor. We saw the effect of tariffs as they were raised on Canadian lumber products, and the cost of lumber jumped, immediately followed by new house cost increases. It contributed to the rather dramatic rise in real estate costs, but as that valuation also applied to already-built houses, our total wealth rose. Unfortunately, it also priced quite a few people out of buying a home. Notably, when the tariffs were removed, the price of houses did not fall. The more expensive wood was already in the houses, and the resulting housing shortage caused the increases to remain.

Once more, we are forced to render the unpopular assessment that the U.S. economy is in excellent shape and rolling along with little or no signs of bad times ahead.

Until next week, we do pledge to do our duty, be square, and obey the fiduciary law, as well as render the best and most caring service and advice possible. Be safe. Stay warm. Take care.

Your obedient servants,

Jeffrey W. McClure, CFP®
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