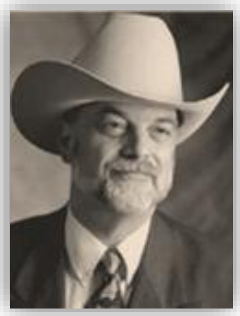

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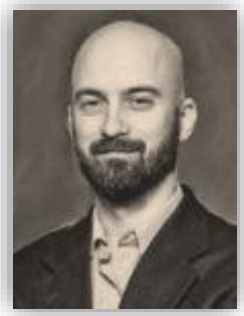

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TPWC Market and Economic Update

The Markets

Reading the financial news, one would think we were amid a stock market crash following the news that DeepSeek, a Chinese artificial intelligence (AI) company, came out with a supposedly cheaper version of Chat GPT. Indeed, the S&P 500 Stock Index dropped from around 6119 early Friday to 6040.53 at the close, but from the close of the market last week to this week's end, there was a mere 1% decline. The value of diversification was demonstrated as Nvidia stock declined from its high of $153 early in the week to close at $120, a 22% drop that took a cool trillion dollars off the total value of the SPX. The SPX remained up a respectful 2.7% for the month and year to date, 24.66% higher than a year ago. The other stock index we follow, the CRSP US Mid Cap Value Index, declined a mere 0.50% for the week to 2868.20 and remained up 2.54% this year and about 16.28% since this time in 2024.

Over in the U.S. Treasury bond market, which is both everywhere and nowhere as it has no celebrated location like the "stock market" has at 44 Wall Street, the benchmark yield of the 10-year U.S. Treasury note fell a bit over 1% to 4.58% as the week and month ended. Today's yield is almost precisely what it was as the year began, about 15% higher than a year ago. West Texas Intermediate crude oil (WTI) slipped a wee bit less than two dollars to close the U.S. market week at $72.91.

The Economy

Knowing where to start for this week's economic news is hard. The good news is that most of it was good news.

The literally biggest news was that the Bureau of Economic Analysis (BEA) released its advance estimate of the annualized gross domestic product growth rate for the United States in the fourth quarter and year 2024. In that first estimate, the US GDP grew at a net, adjusted, annualized rate of 2.3% in the fourth quarter after increasing at a 3.1% rate in the previous quarter. That report also estimated that the personal consumption expenditures (PCE) inflation rate during the fourth quarter was 2.3%. Real US GDP increased by 2.8% in 2024 after 2.9% in 2023. The PCE inflation rate for last year was 2.3% compared with 3.3% in 2023. Last quarter's GDP reflected an increase in net consumer spending combined with a lower rate of imports.

The good bureaucrats at the BEA also announced today that personal income increased by $92 billion, or 0.4% in December. Disposable personal income (DPI)—personal income less personal current taxes—increased by $79.7 billion, while personal savings were up by $843.2 billion, or 3.8% of personal income. Collectively, we U.S. consumers increased our spending by $78.2 billion for services but only $55.3 billion for goods. We often hear comments and questions about why services is such a large part of our GDP compared to manufacturing. One of the primary reasons. We Americans spend a lot more on services than we do on goods. No one is making us do that. We do it because many of us have about all the "stuff" we want or need, but we can always purchase more services, which are expended as soon as they are received in most cases, while goods tend to persist before needing replacement.

The Federal Reserve Open Market Board, commonly called "the Fed," met and decided to vigorously do nothing. In most months and weeks, that meeting and the press conference following would have been covered in minute detail with volumes of print and commentary produced analyzing the nuances of each word uttered or reported to have been spoken by the Fed chairman. Still, so much else was happening that it became minor news this week. They did, though, make two small but significant changes. First, the statement dropped any suggestion that rates might be lowered further. The second comment was perhaps more critical; Chairman Powell warned that tariff increases, if they come, may have an unpredictable effect on prices, suggesting that if prices rise because of tariffs, both ours and possible retaliatory actions, the Congressional mandate to the Fed was to act to stabilize prices. That implied that rates might go up.

Then, on Friday, the other shoe dropped. President Trump announced he would impose 25% tariffs on imports from Mexico and Canada but possibly exclude oil. Considering that the U.S. imports a significant portion of its fresh fruit and vegetables from Mexico in the winter and things like lumber and automobiles and their repair parts from Canada, if those tariffs are imposed, expect a significant increase in food and other things soon.

The bottom line is that all appears well in the U.S. economy; however, the threat of large tariffs on our biggest trading partners with potential counter-tariffs in return is potentially problematic.

Until next week, we continue in our pledge to do our duty to God and country and to be the best fiduciary advisors and portfolio managers we can be for you, our clients, and sole employers.

Your obedient servants,

Jeffrey W. McClure, CFP®
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