THE PERSONAL WEALTH COACH®

An SEC Registered Investment Adviser

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TPWC Market and Economic Update

The Markets

It was, to say the least, interesting to watch the various stock and bond indices this week, not only because of what they did but perhaps more importantly, what they did not do. As a prime U.S. stock market proxy, our dear old S&P 500 Stock Index (SPX) only had a very minor net movement for the week, falling 0.24% to 6025.99. That insignificant movement in the total market value hides the fact that the SPX dropped to about 5900 on Monday and rose to about 6100 on Friday before ending the week about where it started. The surprise was, and is, the lack of any significant reaction to what should be market-shaking economic pronouncements out of the White House. Either the U.S. corporate economy is so strong that announcements that would typically have been seen as potentially recession-generating can be ignored, or traders have come to believe that Presidential executive orders are more show than reality. The concern is that if one or some of those executive orders is left in place, the shock of that new perception of reality could catch market participants off guard and spark a panic.

Meanwhile, the SPX is up 2.45% this year, about 21% in the last 12 months, and over 34% higher than three years ago. That appreciation equated to an average annual rate of return of about 10.49%. Since inflation averaged about 4% over that period, the net SPX return has been about 6.5%, well within historical norms. Our other tracked equity market index, the CRSP U.S. Mid Cap Value Index, fell 0.76% for the week to 2846.47, up 1.76% this year and 14.59% from this time last year.

The 10-year U.S. Treasury note yield fell to 4.49%, about 10% higher than a year ago and 134% higher than three years ago. West Texas Intermediate crude oil slipped 2.56% to $71.04 per barrel, 3.82% less expensive than a year ago, and down over 22% over the last three years.

The Economy

According to the Labor Department, the U.S. economy added 143,000 jobs, dropping the unemployment rate to 4% in January. While the new jobs figure was slightly lower than most economists had forecast, it was still a robust job creation rate. Meanwhile, nonfarm business labor productivity increased at a 1.2% annualized rate in the fourth quarter and 2.3% for all of 2024. That sounds great, but job openings decreased from November's 8.16 million to 7.60 million. What does all that mean? The bottom line is that employers are still hiring more job seekers than before the pandemic, but the days when it was a job seeker's market are drawing to a close. That is also shown in the productivity report. New hires are generally less productive than those who have been there for a while. Digging deeper, we also see a historically low rate of layoffs, suggesting that employers are focused on retaining existing employees but are less enthusiastic about bringing new people on board. That is a good place to be for any economy, although it may be far less exciting.

Two reports, one from the Commerce Department's Bureau of Economic Analysis (BEA) and the other from the Census Bureau, illustrate a clear, if perhaps short-term movement in the U.S. economy. The Census announced that U.S. factory orders fell sharply in the final month of 2024, while the BEA noted that the U.S. had the most significant negative trade balance since 2022, as we imported about $365 billion in goods and services but only exported $266.5 billion, a $98.4 billion deficit in December. The probable cause appeared to be anticipation of tariffs. Anticipated

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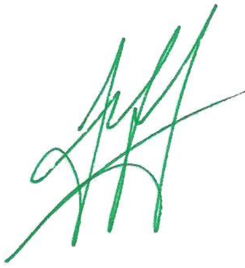
needs for things manufactured in Mexico, Canada, and China took top priority in an attempt to beat the price increases that come with tariffs. Those figures, though, are lagging indicators. The prime leading indicator, the U.S. manufacturing PMI, rose to 50.9, indicating potential growth in domestic manufacturing for the first time in 26 months. At the same time, the Atlanta Federal Reserve's GDPNow tracking model suggested a potential annualized growth rate in the first quarter of this year of 2.9%. Despite a short slowdown as purchasers front-ran anticipated tariffs, it looks more and more like the good times will keep rolling here in the U.S. of A.

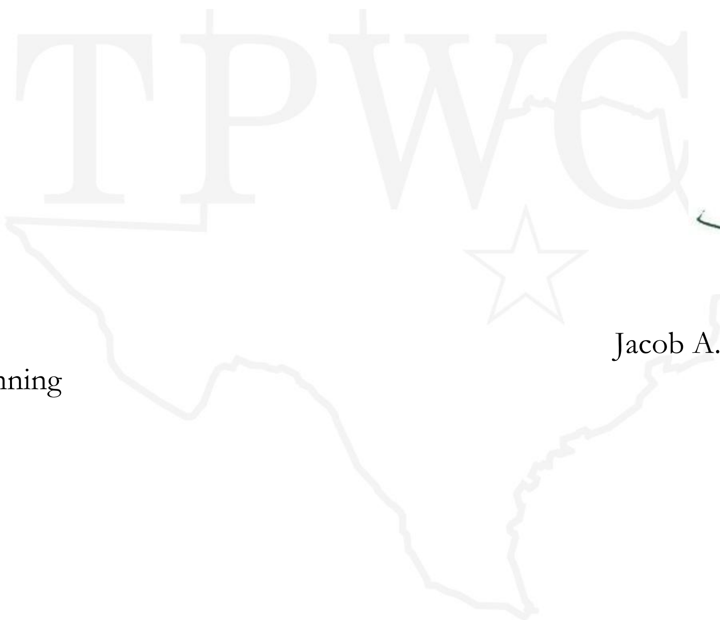
Adding icing to the rapidly growing U.S. economic "cake," small, medium, and large U.S. enterprises have been saying they plan to expand their capacity sharply this year. The economic data suggests that the labor market and the larger economy are finding a balance at full employment, supporting our optimistic view of the near future.

Yet again, we must disappoint those looking for an economic contraction to validate their negative opinion of the U.S. economy. Instead, we continue to see ample evidence of continued healthy economic growth.

Until next week, be assured that the entire TPWC team is on the job, working for you and in your best interests. We are here for you, so don't hesitate to contact us.

Your obedient servants,





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