THE PERSONAL WEALTH COACH®

An SEC Registered Investment Adviser

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TPWC Market and Economic Update

The Markets

The S&P 500 Index (SPX) had another rough week, with the Index roaring up to 5700 earlier in the week, then falling back toward correction territory around 5600 and again shooting up to cross 5700 twice, retreating back to 5600 and finally crawling back up to 5667.56 to close 0.51% higher than where it started the week. That whimpering end to the week leaves the SPX down 5.75% for one month, down 3.64% so far this year, but still 8.13% higher than it was a year ago and up 27% over three years for a gross average annual return of 8.29%. Subtract out inflation, and the net return for the trailing three years is about 4.4%. We bring this to your attention because we have read reports that the U.S. stock market is ready to collapse because of its unrealistically high returns over the past few years. We agree with Morningstar that the SPX, as an indicator of the total U.S. stock market valuation, is about 5% below fair market value. While that is not a signal to pour money into the market, it does help explain our lack of panic and our patient optimism concerning U.S. equities. The other equity index we monitor, the CRSP US Mid-Cap Value Index, ended the week at 2764.94, having risen 0.60% this week, is down 1.16% this year, and up 4.03% from this time last year.

As the forecasts for a reduced rate of growth proliferated, the benchmark 10-year U.S. Treasury note finished the week yielding 4.25%, down 7.21% from where it began the year. The one-month T-bill held nearly steady at an annualized rate of 4.36%, setting the tone for Treasury money market funds, while the 20-year bond slipped slightly to end the week yielding 4.6%, down from last week's 4.65%. West Texas Intermediate crude oil (WTI) inched upward to $68.19 per barrel, remaining in its narrow trading range for the last couple of years.

The Economy

The theme of economic news in the United States is that most everyone is on hold, waiting to see what happens next and what the results will be. The Federal Reserve Open Market Committee (FOMC) met and concluded that the best course of action was to do nothing, leaving short-term interbank interest rates between 4.25% and 4.50%. The press release statement and Chairman Powell's press conference emphasized the level of uncertainty and unpredictability the board faced. The Board estimates that for 2025, the U.S. GDP growth rate slipped from March's 2.1% to a new estimate of 1.7% in the face of rising inflation and tariff costs. Well-respected and historically reliable economists appeared to agree that while there was little or no sign of an impending recession, prices were already starting to rise, and economic growth was slowing. The consensus was that the imposition of tariffs would strip several trillion dollars out of corporate profits and cause prices to increase during the year, threatening a term not heard in decades, "stagflation."

Since the end of World War II, economic policy in the United States and most, if not all, of the Western world has been shaped by the lessons learned from the Great Depression of the 1930s and the event that ended it, a world war. Before the war, from the beginning of the 1930s until mobilization, the United States and, indeed, most of the industrialized world were mired in what seemed to be a never-ending economic depression with unemployment as high as 25%.

In the U.S., the government war effort created about 16 million new jobs out of a workforce of about 113 million people. At the same time, the federal government got heavily involved in the economy through defense-related

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contracts and controls over the production of goods. That pairing of major events resulted in a dramatically different post-WWII relationship between the federal government and our economy. One example was the G.I. Bill, which enabled service members to receive assistance in post-high school education and purchase a home without needing a down payment. This increased economic role included money paid to farmers and a large federal workforce, among other things that seemed to both stabilize our economy and prevent the post-war depression that had followed previous cycles of depression, war, and a port war depression. That economic policy, combined with a steady trend toward free trade and the elimination of large tariffs, had become accepted, led by the U.S., and was credited with the post-war economic boom that resulted in the U.S. economy becoming the dominant global economic force. All that the current administration is challenging. As a result, many businesses, the Federal Reserve, and other major players in domestic and global business are holding back and waiting to see what happens next. That attitude appears to also be being adopted by the American consumer, the most powerful force in our economy.

We continue to have a healthy underlying economy producing near its maximum capability. Still, signs are emerging of a hesitance to commit to longer-term purchases or projects, an understandable attitude in the face of high levels of cost and price uncertainty.

Until next week, we remain faithfully in your service, ready to respond and provide fiduciary advice, portfolio management, and truly personalized service.

Your obedient servants,

Jake

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