THE PERSONAL WEALTH COACH®

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TPWC Market and Economic Update

The Markets

The grand old lady of Wall Street, otherwise known as the S&P 500 Stock Index (SPX), had a rough week. After peaking at 6147.43 in February on speculation that the new administration would do wonders for the U.S. economy and corporate earnings, the SPX has continued to flirt with a 10% decline in value, the traditional definition of a "correction." It closed this week down 1.53% at 5580.94, 9.22% below last month's high. Until Tuesday, it showed signs of shrugging off the bad news as it has struggled to return to higher levels. Still, with a combination of compounding bad news regarding consumer sentiment and tariffs, it spent the rest of the week headed downhill. The SPX is now 5.11% below where it started the year but 6.22% higher than a year ago. It is still up almost 22% for three years, giving it a compound average annual rate of return of 6.84%. The other stock index we follow, the CRSP US Mid-Cap Value Index, ended the week down only 0.40% at 2753.95 and is 1.55% lower this year.

The benchmark ten-year U.S. Treasury note yield has moved remarkably little even as the stock market has thrashed about vigorously. Its yield stood at 4.27% as the week ended, up less than a half percent, and is little changed in the past year. The very short-term one-month T-bill, the marker for Treasury money market funds and many other short-term rates held steady at 4.38%, a source of relief for savers and concern for longer-term bondholders. Still, the 20-year T-bond also has a reasonably solid grip at 4.65%, keeping the yield curve positive. West Texas Intermediate crude oil (WTI) joined the bond bunch as its price per barrel only slipped 1.36% to close out the U.S. trading week at $69.12.

The Economy

The economic indicators we depend on to give us a foggy impression of what the future might hold are, to say the least, confusing. The announced 25% tariffs on imported automobiles, automotive parts, and other tariffs on steel and aluminum are likely to increase the cost of manufacturing an automobile domestically by about 12% and, of course, the cost of imported vehicles by as much as 30%. Given that major U.S.-based automobile companies like Ford and General Motors assemble a large percentage of their products with mainly U.S.-made parts in Mexico and Canada, it has some profound implications for those companies' profits or earnings, as Wall Street calls them. Add in potential retaliatory tariffs and the costs increase more. The President demanded that retail vehicle prices not be increased to cover those additional costs, which, if obeyed, is very likely to dramatically reduce earnings for automotive companies across the board. Stock prices for established companies are driven primarily by earnings. If earnings are going to decrease substantially, stocks follow.

In the short term, things should look rosy. There is already a rush to buy long-term items like cars to snag the pre-tariff prices. Still, at the same time, the ultimate buyer and driver of the U.S. economy, the American consumer, appears to be retrenching and holding off on purchases in general. The Commerce Department's Bureau of Economic Analysis (BEA) reported that U.S. personal income increased by $194.7 billion in February, at a 0.8% monthly rate, while disposable income rose by 0.9%. The snag was that only about half of that additional income was spent. The rest went toward debt reduction and savings. Meanwhile, the core PCE price index, probably the best available measure of inflation, increased 0.4% for the month at an annualized rate of about 4.9%.

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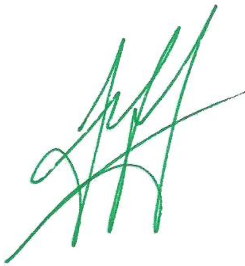
What does all that mean in practical terms? We have often not given much credence to consumer confidence surveys because what people say to the surveyors and what they do with their money is frequently at odds. This time, though, we have seen data suggesting that U.S. consumers might be spooked, as confirmed by both major consumer confidence surveys. Both the University of Michigan and Conference Board surveys show American consumers expressing the lowest levels of optimism since the recession associated with the COVID pandemic. At the same time, those surveys also agree that we, collectively, expect inflation to rise above 6% soon.

Against that gloomy backdrop, the BEA released its fourth estimate of U.S. GDP for the last quarter of 2024. Real GDP was revised 0.1% higher to 2.4% (annualized), and Gross Domestic Income (GDI) grew at a robust 4.5% rate. The weekly new unemployment claims rate, too, continued to signal a strong economy, only rising by 1,000 to 224,000, while continuing claims decreased by 36,000 to 1.856 million.

The bottom line is that while the U.S. economy appears to be rocking along at a healthy rate and effectively full employment, there is a lot of concern about the future. Both businesses and consumers seem to grasp well that tariffs are vehicles for stripping revenue from commercial profits and, if large, could profoundly affect earnings and employment.

Until next week, we will continue to stand ready to serve as we provide fiduciary advice and investment management, as well as a dedication to serving you, our clients, and sole employers.

Your obedient servants,



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