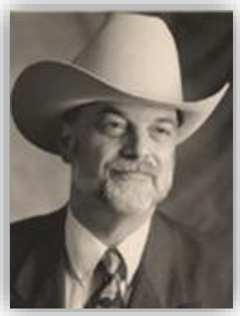

THE PERSONAL WEALTH COACH®

An SEC Registered Investment Adviser

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TPWC Market and Economic Update

The Markets

It was a rough week on Wall Street and many other streets. The S&P 500 Stock Index (SPX) declined in value 9.08% as of the close, and at 5074.08, is now 13.73% lower than when the year began and down 1.42% from a year ago. It remains 10.72% higher than three years ago, but SPX futures contracts continued their decline after market hours. The Index is now down 17.46% from its February high point of 6147.43, putting it solidly in a "correction" but not yet at the 20% decline generally considered a "bear market." The SPX started its decline during the President's tariff announcement and initially stabilized around 5400, but selling resumed after China and other countries announced reciprocal tariffs. The other stock index we follow, the CRSP US Mid-Cap Value Index, fell 8.37% for the week to 2523.34 and is now down 9.79% this year and 4.28% from last year.

On the bond side of the markets, the benchmark 10-year U.S. Treasury note ended the week with a yield of 4.01%, over 6% lower than a week ago, but its yield (interest rate) remained about 66% higher for three years. One-month rates remained at 4.36% to the delight of Treasury money market fund investors as the yield curve generally remained positive, with the 20-year bond at 4.44%. West Texas Intermediate crude oil (WTI) price per barrel declined 9.84% to $62.32 on prospects for a slowing economic demand.

The Economy

We focus on data to create a model of the American economy and try to do so in as rational and balanced a manner as possible. As the week in which April Fool's Day ends, the most clearly apparent thing is that the United States economy, as it evolved since the end of World War II, is effectively gone. In its place is a massive experiment with the apparent purpose of determining if the world's largest economy can function better using the methods of the late 19th century or if imposing an environment that was abandoned during the Great Depression of the 1930s will produce the upper-income prosperity and high inflation for which it was credited in the late 1890s or the economic pain and deflation for which it was widely blamed in the 1930s.

We will start with the old economy as we examine the Employment Situation Report for March from the Bureau of Labor Statistics (BLS). Employment is what drives consumer finances, and consumer finances drive our economy. The total nonfarm payroll employment in the U.S. rose by 228,000 in March, although the unemployment rate rose slightly to 4.2%. Unemployment has remained in a narrow range for the last twelve months after falling to 4.0% in May 2024, a level generally equating to "full employment." About 1.5 million, or 21.3% of those unemployed workers, have been so for 27 weeks or more, another number that has not changed significantly in the past twelve months. Meanwhile, the labor force participation rate remained steady at 62.5%. Workers laid off by the Federal Government are not counted as unemployed, as most are technically on paid administrative leave. Wages were up by 0.3%.

Mark those figures as the starting point of the economic experiment. The tariffs announced on April 2, as a percentage of our economy, appear to exceed those imposed by the Smoot-Hawley Tariff Act signed into law by President Herbert Hoover in 1930 in keeping with his pledge to enact high tariffs to aid American businesses and increase employment. The response to the "Hoover Tariffs" by other nations as they reciprocated with tariffs at the same 40%

levels over the ensuing four years, reduced global trade by two-thirds and was credited by many historians and economists with creating both the Great Depression of the 1930s and World War II.

Conversely, the tariffs signed into law by President McKinley at about the same level coincided with the annexation of Hawaii and the Spanish-American War in which the United States seized Cuba, Puerto Rico, and the Philippines by force of arms as the U.S. entered its colonial period. During the early colonial period, Large American companies took possession of the agricultural and other resources of the colonies and paid substantial federal fees. As a result, the federal government saw a significant revenue increase, as did the "Robber Barons" who captained the companies. A negative effect was the approximately 25% increase in the cost of living experienced by wage earners in the U.S., accompanied by falling wages and worsening labor conditions.

As we wrote last week, the difference between the lagging data from March and the Purchasing Managers Index suggesting what the future may hold could not be starker. We, at present, are living in a thriving, full-employment economy, but business expectations are pessimistic across the board. Contrary to some claims, this is not the end of the world. As a nation, we have been here before, and we at The Personal Wealth Coach believe we will weather this storm, too!

Until next week, we want you to know that we remain on duty, determined to serve our clients with fiduciary advice, portfolio management, and superior, caring service. Don't hesitate to contact us with your questions, comments, or anything else in our areas of expertise and responsibility.

Your obedient servants,

Jeffrey W. McClure, CFP®
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