THE PERSONAL WEALTH COACH®

An SEC Registered Investment Adviser

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TPWC Market and Economic Update

The Markets

If ever there were a week for the market to draw back on current news, it was this one, ending on 4/26, but instead, it roared ahead, suggesting an old saying, "A bull market climbs a wall of worry." The S&P 500 Stock Index (SPX) closed out the week at 5099.96, about as close to the psychological 5100 mark as one can get, after rising 2.67% for the week. That pleasant gain still leaves it down almost 2% in the last month but up 4.27% for the last three months and 6.92% this calendar year. It also leaves the SPX up over 22% from a year ago. As has been the norm of late, all of the 22% gain we have seen in the last three years has been in the last twelve months. Our other stock market indicator, the CRSP US Mid Cap Value Index, closed the week at 2592.95, up 1.18% for the week and 12.26% for one year.

On the other side of the market, where debt is king, the ten-year U.S. Treasury note ended the week yielding 4.67%, up from 4.62% last week. The rise in longer-term interest rates has rarely been dramatic but is far more like the fable of the frog in a slowly heating pan of water, rising gradually but no less significantly. The 10-year T-note paid out only 3.95% at the beginning of 2024, and thus, the yield has risen about 17% so far this year. The difficulty is that the market value of a bond falls when interest rates rise, so bond investors have seen some impressive losses this year. Even that is only a small part of the big picture. The Wall Street Journal's Jason Zweig noted that long-term bond funds have lost nearly a third of their value over the past three years. Meanwhile, West Texas Intermediate crude oil (WTI) crept up about half a percent for the week to $83.68 but about 17% higher than at the beginning of the year and 11.9% higher than a year ago.

The Economy

There are many ways to see the ongoing economic status of an economy, and the popular methods sometimes seem to make little sense. For example, when it comes to Gross Domestic Product (GDP), each quarter when our beloved Bureau of Economic Analysis (BEA), buried deep in the bowels of the Commerce Department, announces its quarterly GDP report, the top line figure is given as an annualized number, as though it were for the whole year, thus giving us four annual growth rates each year with each one, in effect, suggesting that will be the rate for the last 12 months. But, when the same BEA releases its inflation data, known as the Personal Consumption Expenditures Price Index (PCE), or the Labor Department releases the Consumer Price Index (CPI), the news media jump on the trailing 12-month actual data. The result this week, if you just read the headlines, was that our GDP grew at a 1.6% annualized rate in the first quarter, while inflation was up 3.4%, measured by the Labor Department's Consumer Price Index (CPI) over the last year. If that sounds to you like we are going backward, you are not alone. In fact, inflation is subtracted from the GDP before it is calculated, and to compound the issue, the inflation number that was subtracted was not the CPI but rather the PCE.

Confused? Who wouldn't be? The result is that apples are measured against oranges to get (and drive us) bananas. First, let's stick with one measurement tool the Fed pays attention to: the BEA's Personal Income and Outlays report. Why? Because they calculate the GDP. Over the last 12 months, according to the BEA, real prices in the United States have risen 2.7%, while the current nominal dollar Gross Domestic Product (GDP) has risen 5.4%. Subtracting PCE inflation from the gross, nominal GDP gives us a real, inflation-adjusted GDP growth rate of 2.4454% or rounded, about 2.45% for the last twelve months. That is, in our opinion, an important number because the infrastructure of the United States is probably at its maximum capacity at about 2.5% real, inflation-adjusted growth. Moreover, it is consistent with the very low levels of unemployment we are seeing and explains why there has been an impressive quantity of net employment growth over the last year.

As massively complicated as all that sounds, we haven't even touched on the fact that the CPI inflation report measures one set of numbers and multipliers while the PCE measures another. The CPI is based on a largely fixed set of weights, while the PCE is adjusted for where consumers are actually spending their money.

While there is much more than can be said about the measures of economic health in these United States of America, suffice to say that despite the various and currently pessimistic readings of the mixed measurements, the overall picture remains one of health and growth. That growth rate is moderating, which is a good thing because we do not have the capacity for faster growth, but the long-anticipated recession remains out of sight. Could we get a recession this year? Of course, but that can be said of every year; it is just that the economy continues to show far more signs of a return to a healthy growth rate than a recession.

Until next week, be assured we are diligently working in your best interests out of a sincere desire to provide you with the best care and expertise we can manage!

Your obedient servants,

Jeffrey W. McClure, CFP®
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