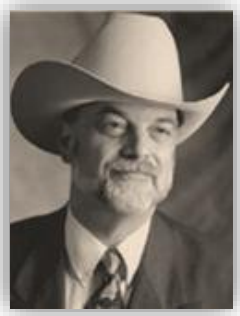

THE PERSONAL WEALTH COACH®

An SEC Registered Investment Adviser

Jeffrey W McClure CFP® *Jacob A McClure* CIMA®

PO Box 1029 / 918 N. Main Street
Salado, TX 76571

(254) 947-1111
(800) 914-7526

Serving Investors Since 1982

www.tpwc.com

jeff@tpwc.com

jake@tpwc.com

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TPWC Market and Economic Update

The Markets

The S&P 500 Stock Index (SPX), our prime, if flawed, indicator for the U.S. stock market, had a relatively wild week, dropping about 120 points mid-week to as low as 5013 before recovering at the end of the week, May 3, to 5127.79, up 0.55% for the week, 7.5% so far this year, and an impressive 25.35% from this time last year. Our other market indicator, the CRSP US Mid Cap Value Index finished the week at 2599.42, up 0.25% this week, 3.37% year-to-date, and up about 14% from a year ago.

The benchmark, 10-year U.S. Treasury note ended the market week yielding 4.5%, down from the 4.67% we reported last week, but still significantly higher than the 3.95% yield at the beginning of the year. West Texas Intermediate crude oil (WTI) was priced at $77.99 per barrel at the end of the U.S. market week down from the $83.69 price at the beginning of the week.

The Economy

The surprise news this week, although it probably should not have been, was that the weekly net new jobs gains came in from the Labor Department's Bureau of Labor Statistics (BLS) at 175,000 for April, accompanied by a rise in unemployment from 3.8% to 3.9%, but the report noted that was an insignificant change as it had been at 3.9% in February and appeared to be hovering on the edge between the two numbers. Despite the stock and bond markets' probably exaggerated reaction to the news, the three-year payroll gains have averaged an impressive 242,000 for the last three months. It might be good to remember that economic forecasts late last year were for an average monthly gain of less than 200,000 in the first months of 2024. The unemployment rate has been inching up not because people are losing jobs, but rather because the number of people in the market for a job has been rising. That rising number was a mystery for some time, but the Census Bureau found that immigration (legal) has been significantly higher recently than they previously reported, and that the new immigrants appear to be vigorously seeking gainful employment.

The other news this week that seemed to increase stock traders' "wall of worry" was the employment cost index also from the BLS. Compensation costs for civilian workers increased 1.2%, seasonally adjusted for the three-month period ending in March 2024. As that roughly equates to a 4.8% rise in compensation when annualized, it spooked the traders out of fear the Federal Reserve would raise rates rather than lowering. The traders did seem to have cause for fear as the trailing 12-month increase in compensation costs was reported at 4.2%. A more detailed look at the data though indicated that employment costs are trending downward, and that seemed to generate the market recovery at the end of the week.

Economy data just "ain't what it used to be." For example, the unemployment rate is arrived at from a telephonic survey by the BLS. Back when most people had landlines and a limited number of junk calls, the data compiled from such a survey resulted from careful research going back decades. Today though, only a limited number of households even have a landline and more and more people do not respond to any of the avalanche of cell calls they get every day unless they already know the number is an existing contact. As a result, phone survey data has become less and less reliable, and often contradicts hard data from reliable sources. Since that minority cell phone answering segment of the public is those providing data for political polls, those numbers too should be considered with caution.

In other news, surprisingly, the U.S. Federal Deficit growth seems to be declining this year versus fiscal year 2023. The Department of the Treasury has announced an anticipated borrowing total for 2024 of $1.84 trillion, about 30% lower than in fiscal 2023. In a further surprise, the Treasury Department also announced a new program to buy back outstanding debt in the form of Treasury securities held by the public. This is the first time since the early 2000s and appears to be an action to clear higher interest debt and move it to a lower interest position. At this time, interest costs amount to about 3.4% of nominal GDP and are anticipated to rise to about 3.9% during the next decade. While there is a long-term danger in the level of deficit spending by the federal government, as long as the interest being paid runs at that level, it should remain sustainable. Note the nominal U.S. GDP growth over the last year has been 5.8%. Translating those figures into more understandable terms, less than ¼ of one percent of our nominal GDP over the last year covers the annual federal interest outflow. The total tax receipts of the federal government equate to about 20% of GDP, down a bit from the high of 21% in 1981 to a low of 19% in the mid 80s but have since slowly risen to the current level and appear to be holding there.

Once more, we are pleased to report that the U.S. economy remains healthy and robust and despite alarmist remarks to the contrary, is unlikely to be crushed by federal debt any time in the foreseeable future. We recognize that this statement will be disappointing to many, but that is what the numbers and our personal observations are telling us.

Until next week we remain steadfastly at your service, striving to act always solely in your best interests.

Your obedient servants,

Jeffrey W. McClure, CFP®
M.S. Personal Financial Planning

Jacob A. McClure, CIMA®