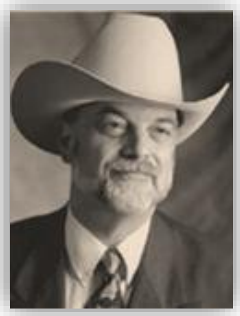

# THE PERSONAL WEALTH COACH®

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## TPWC Market and Economic Update

### The Markets

Our preferred indicator of the U.S. stock market, the S&P 500 Stock Index (SPX), fell another 2.88% for the week ending on March 11, closing at 4204.31. That decline brings it down 11.79% from the beginning of the year and puts it firmly in a "correction." The only good news about the decline is that it was down even more on Tuesday and, despite some significant ups and downs, was relatively stable during the rest of the week. The internal battle between the bears and the bulls is now centered on how much damage the war in Eastern Europe, including the embargos and restrictions of critical commodities, will do to the American economy and associated corporate earnings. The other stock index we follow, the CRSP US Mid-Cap Value Index, closed at 2450.62, down 2.11% for the week and 5.65% year-to-date. The difference between the two indexes' declines is an indicator of where the damage has been done in the stock market. The SPX has been largely driven by large-capitalization, growth companies and that is where the biggest declines have been seen. So far this year, the S&P 500 Growth Index is down 15.8%, marking a stark difference between it and the Mid-Cap Value Index's decline of 5.65%.

The yield on the 10-year U.S. Treasury note reversed itself from last week's sag, rising almost 12% to 1.998% by the end of the week. The 30-year bond rose as well to 2.357%, keeping the yield curve positive. While the curve has flattened a bit, it remains positive and continues to forecast economic growth into the future. Confounding expectations, West Texas Intermediate crude oil (WTI) fell 5.25% to $109.09, and while it is up nearly 45% this year, remains in the general vicinity of where it was expected to be without the war in Ukraine.

### The Economy

The economic headlines for the week continued to be about Russia's invasion of Ukraine and the expected effect of that war and the economic sanctions against Russia on the U.S. and world economies. Amid those headlines came the Labor Department's report that year over year inflation as measured by the Consumer Price Index (CPI), rose to 7.9% for the month of February. Separating the two issues was difficult as at least some of those price rises could be traced to the war.

The CPI 12-month increase was the highest we have seen since 1982, but in many ways bears no resemblance to the wage-price spiral we witnessed in the 1980s. Once more, the price of used cars and trucks led the way, up 41.2% since this time last year. The other big contributor was, unsurprisingly, gasoline and fuel oil, up 38% and 44% respectively. As usual, when we remove the often-volatile food and fuel categories, the number became more reasonable, in this case 6.4%.

A frequent question we are getting is, "If the U.S. is now a major oil exporter, why are prices rising here?" The complete answer is complex, but a simplified version goes like this: Russia was recently supplying about 10% of the world oil supply, or about 4.5 million barrels per day. Since it invaded Ukraine, a lot of that supply has been halted. When prices go up in Europe, an oil seller in the U.S. will tend to sell to those buyers who offer the higher prices. To compete, a buyer of oil in the U.S. will have to raise the bid for that oil here at home, thus the price goes up both at the refinery and at the gas pump. The issue is more complex, but that is a major factor. Another critical issue to put this in perspective is that after factoring in today's improved average gas milage and fifty years of inflation, gasoline prices, even at $4.50 per gallon, are cheaper than they were in the 1970s.

The back side to that unpleasant news is that the total net worth of American households rose $5.3 trillion in the 4th quarter of 2021, to over $150 trillion. Even after factoring in inflation through history, that is by far the highest level of wealth ever held by American households. We are adding workers, increasing productivity, and ten of the twelve leading economic indicators remain positive. There is no question that increases in the prices of the commodities exported by Russia and Ukraine such as grains, certain metals, and oil will slow things down and extend the bout of inflation we are seeing, but for the present, all indicators we can see suggest the U.S. economy has the momentum and fuel to power through this tough environment. Only time will tell, but a careful look at history causes us to remain optimistic.

As always, we once more offer our pledge that we will and are working diligently to provide the best fiduciary portfolio management, investment advice, and service known to the investing public. Until next week, take care, have faith, and be of good cheer! We are here to support you.

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