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TPWC Market and Economic Update

The Markets

Once more, our dear old S&P 500 Stock Index (SPX) continued to exhibit evidence that we are still in a healthy bull market as the Index climbed 0.87% for the week to close at 5615.35. That leaves it up a whopping 17.73% so far this year, 25.56% higher than a year ago, and just over 28% higher than where it stood three years ago. That three-year gain equates to an average annual growth rate of 8.6%, which sounds delightful but is very much in line with the SPX average for about the last century. Moreover, as inflation has averaged just under 5% for that same period, an average annual return 3.6% higher than the CPI is historically quite reasonable and normal. We, of course, also follow the CRSP US Mid-Cap Value Index, as we believe it better reflects what is going on in the 495 stocks that are not the Fabulous Five AI-related giants. That index reflected a new trend as smaller and non-growth stocks surged far faster than the SPX for the week, rising 3.71% to 2671.54 and putting it up about 9.11% from a year ago. For whatever it is worth, that resurgence of the rest of the market is a very good historical sign that this bull may have longer to run. Historically, it is when the big, growth-oriented tech stocks soar ahead and leave the rest of the market behind that the clock starts to run out on a bull market. There is still a huge difference between the Fabulous Five AI stocks and the mainstream market, but this is worth watching.

Over in the much larger, and many would say, far more important debt markets, the benchmark 10-year U.S. Treasury note ended the week yielding 4.18%, a wee bit lower than last week but still up quite a lot from the 3.88% at the beginning of the year. Bond prices fall as rates increase, so with a nire than 200% increase over the last three years, the S&P 500 Bond Index, even with all interest payments reinvested, has lost 2.36%. If one were taking the interest payments as cash, the Index has declined 2.88% per year for three years. Considering that inflation has averaged 4.96% per year over that same period (according to the Fed), a person who hypothetically purchased \$1,000 worth of bonds in the Bloomberg U.S. Aggregate Bond Index three years ago would have seen a whopping 22% decline in the after-inflation value of the principal. That is the very definition of a bear market. Short-term Treasuries continued to delight those who are invested there with an annualized yield at or just below 5.5%. Meanwhile, West Texas Intermediate crude oil (WTI) ended the week at \$82.26 per barrel, down about 1% from last week's \$83.15 but still about 8.6% higher than a year ago. If you have been out on the highways, you will understand why that is.

The Economy

There was no question this week on what the biggest story in economics was. The Consumer Price Index (CPI) news release by our beloved Bureau of Labor Statistics (BLS) at the Labor Department included a top-line inflation change for June of -0.1%. Yes, you read that right, minus zero-point one percent! June's negative number left the one-year top-line CPI inflation at a nice even 3.0%. The decline ironically came from the same categories that led to the surge in inflation a couple of years ago: Used Cars and Trucks (-10% for the month), new vehicles (-0.9%), and gasoline (-2.5%). Pulling out the often-volatile food and energy components, the so-called "core" CPI rose 0.1%. That report immediately generated a flurry of speculation on when and how often the Federal Reserve would start reducing short-term rates. The speculators seem to either be ignorant of or ignore the fact that the Fed has repeatedly announced that the CPI is not what they watch; rather, they pay close attention to the core PCE index from the Commerce Department. That report will not be issued until July 26, but traders were hopeful as the last release showed only a

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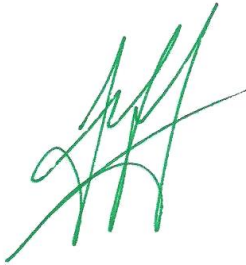
0.1% increase for May with a 2.6% trailing 12-month rate. Like Chairman Powell says, waiting until the hard data comes in before celebrating is a good idea.

Some of that reduced inflation is pretty clearly coming from decreasing consumer demand, which is where the majority of our economic action takes place. PepsiCo and Conagra, two of the biggest consumer snack food manufacturers, reported that snack food sales volume dropped over the last year. PepsiCo said that volumes in its Frito-Lay North American business declined 4% since this time last year. It reported that “the impacts of persistent inflationary pressures and higher borrowing cost over the last few years have resulted in tighter household financial conditions,” and “Consumers have become more value-conscious with their spending patterns and preferences...” That is as it should be and indicates that the Fed’s higher rates are doing exactly what they were supposed to do. Meanwhile, globally, trade rates are returning to “Normal,” according to Bloomberg, with the notable exception of Germany, which is in a slump resulting from its heavy dependence on trade with China.

Once more, we must disappoint the doomsayers and pessimistic pundits by reporting that the U.S. economy continues to charge ahead with near-maximum sustainable economic growth over the last year, with all the signs pointing to an even better year ahead.

Until next week, be assured that the whole TPWC team is continuing to tirelessly provide you, our clients, and our sole source of compensation with the best fiduciary advice, service, and management possible.

Your obedient servants,



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