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TPWC Market and Economic Update

The Markets

The S&P 500 Stock Index continued its string of record-breaking closes this week, ending at 2,367.34, up 0.69% for the week. That puts the Index up 21.52% for 52 weeks (one year), and a whopping 29.43% from last February's low point. Even the simple return from May of 2015 totals a respectable 11.10% for the nearly three-year period. The market has had a string of 11 days on which it has broken all previous records for closing highs and is up about 5.7% so far this year.

As is typical with the stock market, regardless of which index one watches, much of the gain for this week happened in the last half-hour of trading. This week's jump was pretty clearly triggered by a sudden drop in interest rates late this afternoon. As Treasury yields declined, U.S. investors switched from bonds to dividend-paying U.S. stocks.

As a demonstration of how interconnected we are, the drop in U.S. Treasury rates was triggered by a sudden surge of investors shifting money from European stocks to U.S. Treasury securities. That, in turn, was a result of bad commodity and corporate earnings news on the continent. While the connection was anything but direct, U.S. stocks rose this afternoon because European stocks fell.

Why the sudden shift in continental investment? Even though the Euro economy appears to be recovering, it is still weak and there are some very real threats to its survival. While we here in the United States have largely forgotten about it, one of those threats, the Greek debt drama, continues to run, and Greece's creditors are at an impasse on how to proceed. If they cannot come to an agreement by which one or more groups stand to lose billions of Euros, Greece will default and all those predictions about what happens if the Greek economy were to collapse will be put to the test.

The trigger for all of this, the 10-year Treasury rate, dropped slightly to 2.315% and gold closed at $1,258 per ounce, down 8% from last summer.

The Economy

Speech Pre-Shocks

The pre-shocks of President Trump's planned speech to a joint session of Congress, scheduled for next Tuesday, are already being felt. The dollar climbed or, depending on your perspective, the Euro dropped back to $1.056 on the hope that the President will reveal some details about a tax overhaul here in the United States. As we wrote last week, the leading provision for extra tax revenue that would allow a corporate tax cut is the border adjustment tax (BAT). If the border adjustment were to be enacted, economists have theorized that the dollar would rise by about 25%. Again, presuming all of that comes to pass, a European owning a dollar would see a 25% gain. A foreigner owning dividend-paying stocks issued by U.S. companies would net an even bigger gain.

Once again, the warning is called for that at least part of our market rise since November is based on vague promises of tax cuts and infrastructure improvements, but those changes will cost a lot of money. How to pay for it all is still undecided and unannounced. If the President's speech does not reveal some specifics, do not be surprised to see a market decline.

U.S. Home Sales

The Commerce Department announced today that new home sales increased 3.7% in January when compared with December. The numbers are up 12% from last year. Existing home sales increased 3.3% from last month with the average existing home price up 7.1% from this time last year. Again, as is the way of markets, stock or home, the 12-month increase in existing home sales is 3.8%, with almost all of it having occurred in January of this year!

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Nationally, we are seeing a shortage of single-family residences. This is an ongoing problem as the low-skilled workers during the housing boom were, at least in part, composed of illegal immigrants, many of whom have returned to their native countries. The higher skilled construction workers have seen a high retirement rate and many of those who did not retire moved on to other fields that are more stable and in a more pleasant environment.

That leads to the question of where the workers will come from to implement the second presidential economic promise; that of the trillion-dollar infrastructure improvement. The reality of how to pay for the things we want and where to find the people to make them happen is a potential disappointment down the road. We hope our elected leaders have some means of making that all happen.

Retail Shift

Those of us a little longer in the tooth can remember when Sears, Roebuck, & Co., Montgomery Ward, and J.C. Penny dominated the retail sales markets. Montgomery Ward vanished into bankruptcy long ago, Sears is a poor shadow of its former self, and now J.C. Penny has announced that it is closing 140 of its remaining 1,000 stores as it lays off 6,000 employees.

The traditional "anchor" stores that were the cornerstones of the shopping malls are all hurting. The first blow came from Wal-Mart, but the death knell was on-line shopping. That generation of retailers came into its own in the 1960s as air conditioned shopping malls sprang up like weeds. Smaller, stand-alone stores across the country suffered and vanished. The big-box, stand-alone super general store replaced the anchors. Now, the big-box stores are hurting as online sales cut into their revenue.

There is an irony here. Some may remember with nostalgia the "general store" that sold everything from clothing to groceries. It was the Montgomery Ward and Sears type store that ran them out of business by shipping goods via the railroads and later by moving into the towns with physical stores. Those big, disruptive stores were, in turn run off by Wal-Mart type stores. Now a typical Wal-Mart sells everything from clothing to groceries. We have come full circle. More, Amazon is getting into the food sales business and has started selling in select locations from physical stores! As Mark Twain is reputed to have said, "History doesn't repeat itself, but it sure rhymes!"

Until next week, we remain your faithful servants,

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