THE PERSONAL WEALTH COACH®

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TPWC Market and Economic Update

The Markets

The S&P 500 Stock Index didn't do much this week, rising 0.24% to 2,378.25, but even that small move put it up just over 30% from the doom and gloom days of February 2016, just over one year ago. It is now up 11.61% from its high in May of 2015. The ten-year U.S. Treasury note ended the week yielding almost exactly 2.50%, a lot higher than its 1.34% yield last summer, but still below its longer-term average.

The most notable thing about the stock market indices over the past couple of months has been how little they have moved. Market values have reached a comfortable status-quo as consumer confidence and solid economic data continue to show a steady, slow rise at a sustainable rate. We think it would take something unexpected to move the market from its oscillating levels around 2,800 on the S&P 500 and 21,000 on the Dow Jones Industrial Average. Importantly, that surprise or those surprises could be either positive or negative.

Our "gut-feeling" is that the short-term risk of a negative surprise is higher than that of a positive. Longer-term we continue to be very optimistic that this great economic engine called the U.S. economy will keep chugging along and producing a healthy expansion for some time to come.

The Economy

Reading the economic news, one would think the raising of short-term interbank interest rates by the Federal Reserve from 0.50% to 0.75% was the big news of the week, but as that was exactly what was generally expected, it really was not much of a story. In the announcement and the accompanying news conference, Chairwoman Janet Yellen did state, "We have confidence in the robustness of the economy and its resilience to shocks." That was a far cry from anything we have heard in a long time. She went on to note that the core U.S. inflation rate was moving close to 2%, the Fed's targeted long-term rate, after threatening to go negative for several years.

What is happening at the Fed reflects a return to "normal" monetary policy in which the Federal Reserve ceases to try to stimulate the economy. Since 2009, the Federal Reserve Board, often in the face of strong political criticism, has consistently been attempting to pump more money into the economic system to keep it from failing. In the early years of that policy, commentators warned of hyperinflation and the collapse of the dollar, but as it turned out, the economists at the Federal Reserve Board understood their profession better than did the talk-show commentators or the politicians. Europe and Japan, who were late to the fiscal stimulus party, are still trying to get their economies out of the woods, but here in the U.S. we appear to have finally returned to a healthy and largely normal economy.

Reflecting that normalcy, or better yet, reflecting a transition to economic expansion, several data points came in this week that individually and collectively indicate economic health. Perhaps the most critical is that the Conference Board's Index of Leading Economic Indicators (LEI) rose to the highest level in more than a decade as it rose for the third consecutive month. The LEI is the most reliable indicator of which we are aware on the overall health of the economy and its likely direction for the next six months to a year.

An element in the LEI is the number of new unemployment claims that comes out weekly. There, the number of jobless claims has been below 300,000 for the longest stretch since 1970 at 241,000 last week. The claims number has now been below the 300,000 benchmark for 106 consecutive weeks. As we reported last week, new jobs created hit 235,000 last month, another sign of economic health.

Meanwhile, the Federal Reserve reported that industrial activity in February was flat, which was good news. Inside the report were data that revealed that mining and manufacturing grew at a healthy rate, but the warmer than usual weather in the northern U.S. caused utility output, a major factor in the industrial activity measures, to decline. Manufacturing activity climbed by 1.2% when compared with a year ago, and was up 0.5% in February alone. Those rises took the manufacturing index to the highest it has been since 2008, another indicator that we are in the transition between recovery from the 2008-2009 downturn and expansion, where the economy moves into new territory.

That same warm weather was probably a contributor to another economic number that suggests we are on the verge of expansion. The Commerce Department announced that U.S. single-family housing starts in February hit their highest level since October 2007, just before the recession. S&P CoreLogic Case-Shiller announced this week that home prices in the United States rose 5.8% during 2016, yet another indicator of a return to normalcy. With new home construction up 6.2% from a year ago, this expansion is not exactly a "boom" but is a strong indicator of economic health.

Everywhere we look we are seeing economic health. Early this week in Austin we saw "help-wanted" signs in more windows than we have seen in a decade or more. Telephone calls to stores in the area forced us to wait through a recording in which the store was asking us to sign up for a job! What we are not seeing is significant wage growth. The official numbers put year over year wage increases at an average of 3%. Historically, when job openings outnumbered applicants, as we are seeing today, employers raised wages to compete for workers. Today, the employers do not have the ability to raise prices to cover an increase in wages, and they are afraid of future increases in health insurance premiums.

The Congressional Budget Office officially stated this week that if the health care act currently being considered by the House of Representatives were to pass, health insurance premiums would rise in 2018 by about 20%. In our opinion, that forecast has employers spooked. More, they are in the awkward position of competing with online sales. In order to see a lot more expansion in the economy, wages have to rise as we are now close to what economists call "full employment." Those increases in wages are unlikely until we see some predictability about taxes, trade, and healthcare. Until then, patience is in order.

Until next week, we remain your faithful servants,

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