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) ended the week down 1.44% at 2.343.98, though it is still up 4.7% so far this year and over 15% since this time last year. The ten-year U.S. Treasury rate dropped to 2.41%, down from just over 2.5% last week. That reduction in interest rates was a result of more bond-buying as investors took cover out of a fear of an economic downturn. That fear factor moved in almost perfect lock-step with White House and House of Representatives actions this week. Oil dropped to around $48 per barrel as it continued to be clear that we have more oil available than we need to burn or use for all our various needs.

The Economy

Normally we try to stay away from politics, unless politics is directly affecting the economy. It appears to us today that it is. The market decline this week has been coincident with news from the House of Representatives and the White House, and that, along with anecdotal comments from market traders, strongly suggests that the market is reacting to a political failure.

The president, Treasury Secretary Steve Munchkin, and House Speaker Paul Ryan have each said health care reform must happen before tax reform can take place. The Wall Street Journal survey of CEOs suggests that much of their recent optimism may come from an assumption that tax rates will drop and federal spending on infrastructure will rise. Some of the energy generated by that optimism appears to be waning.

What is gradually replacing that burst of optimism appears to be a dose of reality. The good news about that replacement is that reality is not that bad. We have seen a slow recovery from the recession that began in 2008, but the recovery to date has been the third longest since World War II. Many economists suggest that the very slowness of the recovery may be the secret of its longevity.

During the election and to a lesser degree this year, a lot of rhetoric has criticized "globalization" but the reality is that we *are* in a global economy, and when we look hard at how that works, practically no one wants not to be. We Americans go to the store in the winter and expect to find fresh vegetables at about the same price as they were in the summer. Most those winter-time veggies were grown in the southern hemisphere. When we purchase almost any product we can note that in terms of hours worked to earn enough money to buy that item, we are far better off than we were a few decades ago, and in most cases what we buy is of far better quality than in the good old days. We can say with confidence that what is good for our trading partners is good for us and vice-versa.

For that reason, it is good news for us that a survey of European purchase managers released today pointed to a long-awaited expansion in the Eurozone. Data firm *HIS Markit* announced that its Eurozone Purchasing Managers Index (PMI) rose to 56.7. Any number greater than 50 indicates growth. That reading was the highest since the Eurozone started into its 2012 recession, one we dodged but which hit them hard. That rise in the Euro PMI brings it close to the 57.7 index number reported here in the U.S. earlier this month.

The Bureau of Economic Analysis, reported today that domestic orders for durable goods increased 1.7% in February from the previous month, which put the first two months this year 1.6% ahead of the same two months last year. That sounds unimpressive, but it is, like much of the rest of our economy, steady. Meanwhile the Bureau of Labor Statistics announced that employment continues to grow and unemployment continues to fall. In a number of states unemployment has dropped to well below 3%, suggesting that just about anyone who wants a job is fully employed. The highest unemployment rate in the U.S. is

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not in the manufacturing states like Michigan (5.3%) where the employment rate is rising, but in New Mexico (6.8%) where *unemployment* is rising.

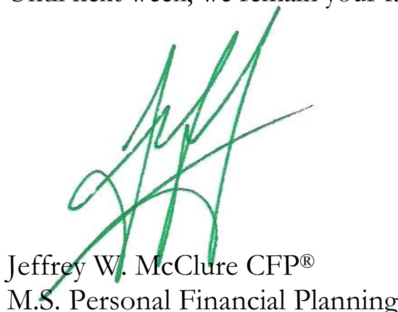
There are several things we can deduce from the economic data that we see. First, we have a very consistent growth rate embedded in the economy. Second, that our economy is global and one of the reasons the U.S. economy has been growing slowly rather than quickly is that much of the rest of the world was, until recently, in or near recession. Third, we are nearing full employment, but because employers cannot raise prices, wages are not accelerating as they have in previous economic growth periods. Employers cannot raise prices because they are also competing with automation and on-line retailers. The price rises we have seen are typically in services like plumbing, electricians, and other skilled trades that must be performed by trained, skilled, licensed professionals here and now. That leads to another conclusion. Inflation is not a threat. Inflation occurs when wages rise faster than productivity so that people are being paid more to do the same work. For that to happen, businesses must be able to raise prices. If prices cannot go up significantly, inflation cannot become self-feeding.

The big element that is missing from this picture is capital spending. Businesses still appear to not be increasing their investment. Rather they continue to hoard cash. There were some glimmers of hope that following the elections last November, the business community would open their coffers and increase their investment in new equipment and training. That would, in turn, increase productivity. Increased productivity would translate into increased growth and production. The increase in production and growth would allow employers to pay their employees more, and so on. That economic cycle then would drive our GDP higher.

When queried as to why they have not increased their investment in their own businesses, decision makers seem to be responding the same way they did last year. Until they see some evidence of stability from our national leaders so that they can predict what is likely to happen they will continue to hold cash. The bottom line appears to us to be that our economy will likely continue in slow growth mode until or unless stability, predictability, and trust are restored in our national political leadership. As with so many other things that initially appear to be negative, there is some good news to be seen here. Both the economy and the markets seem to be quite resilient in the face of what appears to be confused leadership and disappointing actions. Following today's announcement that the Republican leadership and the White House are abandoning their efforts to "repeal and replace" the Affordable Care Act, the S&P 500 futures market initially dipped, but in just a few minutes recovered to the same level as today's market close. In short, the market saw the failure, flinched, but then recovered.

Things ain't half bad.

Until next week, we remain your faithful servants,



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

Jacob A. McClure, CIMA®

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