THE PERSONAL WEALTH COACH®

An SEC Registered Investment Adviser

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TPWC Market and Economic Update

The Markets

Despite a couple of hurricanes, more political drama, a rush to "safe havens" following the N. Korean nuclear test, the Equifax hack, and the dollar dropping to 83 cents per Euro, the S&P 500 Stock Index (SPX) closed out the week at 2461.43, only down 0.61%. When we consider the number of SPX companies that are going to be negatively impacted by Harvey and Irma, particularly the insurance companies, the amazing thing here is the resilience of U.S. equities. The Index ended the week up 9.94% year-to-date and 15.68% from where it was this time last year.

The stock market's biggest hit for the week came Tuesday when Federal Reserve Board governor Lael Brainard warned that persistently low inflation could make it difficult for the Fed to continue raising interest rates. Some investors equate low to no inflation with some weakness in the economy and moved to Treasuries in fear of a recession. Banks and financial stocks were hit the worst as low rates effectively put a cap on how much banks can earn on loans.

The U.S. ten-year Treasury note, the interest rate benchmark in the United States, ended the week yielding only 2.054%. There appears to be a structural change in the world financial system that is more than a little puzzling to economists and investors. The U.S. has ceased buying bonds and the economy appears to be growing nicely, but the demand for loans remains stubbornly low, as do inflation and wage gains. Economic theory suggests that when the Fed stopped holding rates down by buying bonds on the open market, interest rates should return to historically normal levels. Three years ago, with the Fed still suppressing rates, and widespread fear that the U.S. would return to recession, the 10-year T-note yielded about 2.56%. As the Fed backed out of the market and stopped holding rates down, the yield *fell* to about 1.4% in July of 2016. As the week ended, the yield was still 20% lower than when the Federal Reserve was forcing low rates on the economy. Inflation may not be dead, but it is in critical condition.

With all the bad news out there, gold managed to crawl up to about where it was at this time last year. It closed the week at $1,351.00. With refineries reopening following Harvey, one would expect to see a bump in oil prices, but, no. West Texas Intermediate (WTI) closed the week at $47.46, pretty much where it was last week. As we mentioned above, the dollar has declined quite markedly this year. It is now down about 14% year-to-date against the Euro. Historically, that too would be inflationary as imported goods cost more in dollars as the dollar declines, but once again, something different is happening here as retail prices remain very stable, or stagnant if one would like to see a bit of inflation so as to kick interest rates up a bit.

The Equifax Data Hack

One of the big three credit reporting companies, Equifax, reported that hackers had gained access to its database. From sometime between the end of May and the end of July the hackers had access to critical financial and identity data on the 143 million people in the U.S. on whom Equifax has credit records. That data includes the names, Social Security numbers, addresses, and birth dates on those millions of Americans. Those four pieces of information are commonly all that is needed for a person to apply for a credit card or other form of a loan or to open a bank account. Equifax also warned that in well over 100,000 of the files, the hackers also had access to credit card and drivers' license numbers.

If you want to know if your information was compromised, go to www.equifaxsecurity2017.com. Equifax is offering free identity theft protection and credit file monitoring to U.S. persons who have had data compromised. Another site that provides a very good guide to freezing your credit to prevent unauthorized account openings can be found on Clark Howard's website: http://clark.com/personal-finance-credit/credit-freeze-and-thaw-guide/. Clark recommends blocking new credit applications at all three of the major credit reporting agencies when you have had a potential data compromise. A "credit freeze" as that is called, does not affect existing lines of credit and will allow you to continue to apply for credit with a Personal Identification Number (PIN) supplied by each agency.

We recommend you take this threat seriously and start by checking to see if your personal identity information was compromised. Then, you may want to take advantage of the identity theft protection offered by Equifax and follow Clark's advice.

The Economy

New jobless claims jumped last week, but we suggest you ignore the data. Hurricane Harvey's employment impact will be significant, and as of the end of the week, it certainly appears that Irma will have a perhaps larger impact than Harvey. In short, the employment numbers for the rest of this quarter are likely to be all over the place, but they will tell us little or nothing about what is going on in the economy. What we can say for sure is that an immense amount of money will need to be spent to make a dent in the rebuilding and repair work from two major hurricanes. The short-term impact will be negative to GDP and about everything else, but in the long term, it will get money moving around in a big way.

Congress committed $15.25 billion for direct hurricane aid, but it looks like that will be a drop in the bucket. According to *USA Today*, and *AccuWeather* the early estimates for Harvey suggest it will take at least $190 billion to do the cleanup, with much of that coming from insurance companies. If Irma matches or exceeds that number then there will be about $400 billion dollars in new spending hitting the economy. The one big question mark is where the construction labor will come from to do the work.

The bill to provide special aid to areas hit by Harvey and Irma also eliminated the U.S. debt ceiling until December 8. That is good news for the economy. If the same bipartisan coalition can continue to hang together on a new bill in December, a major threat to the U.S. economy may be eliminated. There are members of Congress who believe that the threat to not pay federal obligations already voted into law by Congress is a valid way to reduce the deficit. We disagree. If we want a lower deficit, then when spending bills are passed in the House of Representatives with no offsetting reductions, taxes need to be levied to fund the bills. Quite notably, the Congress just agreed to spend over $15 billion but included no tax revenue increase to pay for that spending. Many of the members of Congress who voted to spend the extra money have also pledged to never raise taxes. That is where deficits arise.

One frequently raised question is why we suddenly seem to be getting hit by severe hurricanes. When we talk about severe, it is wise to recognize that Irma is reportedly the strongest Atlantic hurricane measured since the National Weather Service began keeping records. It is not a coincidence that the temperature of the Atlantic Ocean, at least at Atlantic City, was recently reported by NOAA to be at a record high of 83.3 degrees. In the mid-Atlantic where the hurricanes typically form, the water temperature in August was around 84 degrees F, a record high temperature. The two things major Atlantic hurricanes need to form are warm water and an absence of a jet stream in the upper atmosphere. As the Atlantic has warmed this year, the jet stream that commonly reaches down into the hurricane formation area has shifted north, along with many other seasonal weather patterns.

Is this a permanent shift and heating or will it dissipate next year? That is the big question. What we do know is there seems to be a pattern going back to the 1880s of mid-Atlantic warming and more recently a northward drift of weather patterns that can reduce hurricane severity. The takeaway is that living near sea-level along the Gulf and Atlantic coast may not be the wisest move.

In a personal observation, we ventured out across West Texas toward the end of the week and were astounded at how the forests of electric-generating wind turbines have spread along with a giant grid of high tension power lines to carry the electricity back to the east. We suspect that all that wind-created electricity has to be reducing the quantity of oil, natural gas, and coal being burned to make megawatts. That, in turn, may be another reason the price of oil and natural gas has remained remarkably stable in the face of major hurricanes.

As usual, there is more, much more, about which we could write, but we must close.

Until next week, we remain your faithful servants,

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