
# THE PERSONAL WEALTH COACH®

**An SEC Registered Investment Adviser**

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## TPWC Market and Economic Update

### The Markets

The S&P 500 Stock Index (SPX) closed out Thanksgiving week not only with a new record high but with a new landmark as it crossed 2600. For the shortened week, it was up 0.65% to close at 2602.42, its 55th record-breaking close of the year. Looking out a bit further, the index is up 1.64% for a month, 16.24% year-to-date, and just over 18% for one year. For those of you with longer-term memories than are usual in today's sound-bite world, it was only 49 market days ago that the SPX crossed 2500.

So, what's driving this market? On the surface, it would appear that a plunge is due simply because we have seen so much appreciation in the broad stock market. To put it simply, every aspect of the corporate economy looks good, not only at the present but in consensus forecasts. Europe appears to be pulling out of the doldrums, led, amazingly enough, by the former Warsaw Pact Eastern European countries. The "developing world" economies too are growing in ways no one we can find forecast at the beginning of the year. China, the 800-pound gorilla in the room, is not only not slipping into recession as many feared the last couple of years, but instead appears to have an expansion going that is gaining traction as its middle class has begun to buy more non-necessities.

As we have written before, there are no apparent bubbles in the system. Yes, the longer-term bond market is priced quite high, and there is the near-certainty of some serious disappointment there, but that should be no surprise. The outstanding risk remains that something like the U.S. pulling out of NAFTA or some other trade agreement could happen. A broken NAFTA could hit corporate earnings hard and, at the same time, raise retail prices here. The good news is that most observers believe that will not happen.

The stock issues leading this market are, unlike the late 1990s, the companies with the best earnings growth and best prospects to continue to grow in profitability. A part of that growth is the decline in the dollar against the Euro and other major currencies. Because U.S. major corporations have large overseas holdings, the dollar's fall produces an increase in the value of those holdings and profits while at the same time making U.S. goods and services less expensive outside the U.S. At the beginning of 2017 the dollar rose to near par with the Euro but today one Euro is worth about $1.19. That 18% rise in the Euro, or fall in the dollar, has been pure good news for U.S. corporate earnings. As the vast majority of gold transactions are outside the U.S. it also has created an apparent rise in gold prices, but in international terms gold has been falling as it is only up about 10.5% year to date.

Meanwhile, the benchmark 10-year U.S. Treasury ended the week almost precisely where it started with a 2.344% yield.

### The Economy

The index we watch most closely, the Conference Board's Index of Leading Economic Indicators (LEI), rose 1.2% in October to 130.4. While the LEI sometimes gives a false alarm, to date no recession has arrived since its inception that was not forecast by its multi-month decline. This week's announcement suggests that this economic expansion will continue in good form well into 2018.

We appear to be in a near-perfect economic environment with median household incomes up about 10% in the last two years, blue-collar wages up 4% in the last 12 months, unemployment at near-record lows, and inflation low enough that it is not a factor for most people. The only thing that most economic commentators can find to worry about is there is not much of anything to worry about!

Still, it is good to remember that we are sailing in uncharted waters. Never before have central banks, like the European Central Bank or the U.S. Fed, exercised as much power over money supply and interest rates as we have seen in the past decade and more. As they back away from their intervention with the Fed beginning to sell bonds instead of buying them and the ECB tapering out of stimulus, we will be in an economic environment for which we have no precedent. We will be watching closely, and so should you!

Until next week, we remain your faithful servants,

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