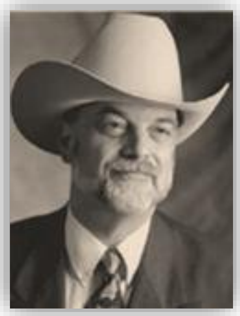

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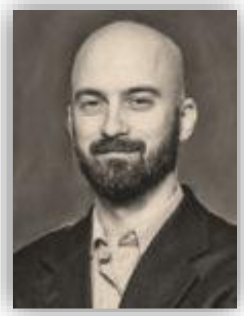

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TPWC Market and Economic Update

The Markets

Despite Friday's about 1% drop in the broad market, the S&P 500 Stock Index (SPX) closed out the week up 0.52% for the week at 2670.14. The positives early in the week were from corporate earnings reports that trended higher than expected. The negatives included continued uncertainty about tariffs and an analyst's warning that Apple's new iPhone might not be able to keep up with demand. The week's market news is a lot like the news year-to-date. The economy and corporate earnings continue to be robust but markets, which are driven by prospects for future earnings continue to weave up and down. Year-to-date, the SPX is down 0.13% and is down nearly 5% in the last three months. Still, it is up 13.69% for one year.

The 10-year Treasury Note accelerated its rise in yield to close out the week at 2.96%, over double the rate of 18 months ago as inflation began to show up in the economy. The primary driver of that inflation was the sudden rise in steel and aluminum prices triggered by the recently imposed tariffs. Oil rose to $68.26, up over 50% from last June. Gold was down 0.82% for the week at $1,337.60 per ounce.

The Economy

The New York Federal Reserve announced that its analysis indicated that steel tariffs will cause a net job loss in the U.S. with higher prices already reducing sales of American made steel products. Some of that angst may be reflected in the Federal Reserve's report on U.S. industrial production growth which slowed sharply in March from the previous month. Production did rise 0.5%, but that increase paled when compared with the 1.5% numbers reported for February. Mining, which includes oil production, rose 1%, utilities were up 3%, but the drag was in manufacturing, which only rose 0.1%. Executives reported a combination of rising metal prices and tariff threats are crimping new orders.

Meanwhile, odd things are happening in the yield curve. As U.S. Treasury borrowings surged upward as a result of the recent tax cuts and spending increases, the administration has elected to do most of its borrowing on a short-term basis. In mid-September, the 2-year U.S. Treasury note yielded 1.32% but in the last couple of months has risen to 2.44%, primarily from that surge in short-term borrowing. Short-term bond yields rising faster than longer-term yields is known as "curve flattening." While the Treasury yield curve is still positive, meaning longer-term Treasuries have a higher yield than shorter-term issues, the flattening of the curve could precede an inversion. In an "inverted" curve, shorter-term Treasuries have higher yields than those with a longer maturity. An inverted Treasury curve is a warning sign of an impending recession in about 15 months.

Jobless claims continue at near record lows and business leaders remain upbeat about the economy, according to the Federal Reserve's "Beige Book" report. At the same time, many business leaders were concerned about rising prices of both metals and imported components, complaining that they could not raise prices on finished products to match their increased cost in materials. Those same business leaders expect to see the economy growing at a modest to moderate rate through the end of this year with labor markets remaining tight and a likely increase in inflation.

In a very separate area, the U.S. Securities and Exchange Commission released a proposed rule that would effectively prevent commissioned securities salespersons from continuing to call themselves "advisors." The proposal would allow them to continue to have significant conflicts of interest and not function as a "fiduciary" acting in their customer's best interest.

One of the issues about which we have long objected is the ability of a securities or insurance salesperson to label themselves as a "financial advisor" when the advice they provide is influenced by the amount of money they will be paid by their employer or the company that provides the financial product they are selling. We are of the opinion that the SEC proposal does not go far enough in clarifying the distinction between those who sell financial products and those who are fiduciary investment advisers, obligated to act solely in their client's best interest.

Until next week, we remain your faithful servants,

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

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