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THE PERSONAL WEALTH COACH®

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TPWC Market and Economic Update

The Markets

The benchmark S&P 500 Stock Index (SPX) managed, with great effort, to eke out a gain of 0.31% during the week ending May 25, closing at 2721.33. The Index managed to climb to 2740 on Tuesday with indications of higher days to come, but then fell back to just above 2700 following the announcement of threatened 25% automobile and car parts tariffs by the Trump administration. As has been the story so far this year, the underlying company results are good, stimulated as they are by the tax cuts, but the potential for future pain from the actual and threatened tariffs cancel what would otherwise be a cause for a rise in the markets. Year-to-date, the SPX is up 1.78% and for one year it still maintains a whopping 12.65% gain.

The benchmark 10-year U.S. Treasury note slipped back below its 3% yield mark to close yielding 2.928% as here again the potential damage from a trade war came into the calculation. The WSJ U.S. Dollar Index rose 0.21% for the week and is up 2.39% for one month as Italian elections as the 5-Star Party threats to throw off budget constraints put the already sagging EU economy at risk. The Euro closed at 1.16 to the dollar, having dropped from 1.25 in February. Gold rose 0.63% in response to the trade war tweets but remains down 2.72% for three months, closing at $1,305.80. Oil fell 5.51% to $67.57 as Russia and Saudi Arabia cut a deal to produce more despite OPEC pledges to hold the line. In response to interest rate increases, the average fixed-rate 30-year mortgage rose to 4.58%, a big jump from the 3.73% rate last year.

The Economy

A combination of rising home prices, up 5.3% in the last year, and rising mortgage rates caused sales of existing homes to decline 2.5% in April. Meanwhile, new home sales also fell 1.5% in April, reflecting, at least in part, the worker shortage being reported by builders as well as higher costs and mortgage rates. Builders reported anecdotally that they see this year as the peak in the market, echoing economists' estimates.

In some much-needed good news, the tax code change to allow immediate expensing of commercial purchases seems to be creating a flurry of durable goods orders by companies as the orders for non-defense durable goods rose 1% in April. That puts durable goods orders up 9.6% when compared with April 2017. Orders for U.S. made metals increased 1.3% in April and is up just over 15% for the first four months of the year when compared with 2017.

The potential for a trade war with China dropped during the week as Chinese officials promised to a "meaningful increase" in U.S. agricultural commodities. Just as the markets digested that information and counted it as good news, the Trump administration announced a potential move to impose a 25% tariff on imported automobiles and parts. At almost the same time, the Chinese government announced a reduction in imported automobile and parts tariffs from 25% to about 6%.

Economists and industry representatives responded by warning that the combined tariff on steel and autos would likely increase the price of new cars substantially and in doing so reduce the number of cars bought in America. One of the issues that face the auto industry is that all major domestic automobile manufacturers make a large part of their

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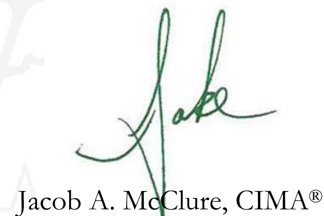
vehicles outside the U.S., most often in Mexico or Canada so the tariff would hit domestic manufacturers almost as hard as pure importers.

Moody's Analytics has forecast the 1st quarter GDP will be revised downward to 2.1% but the second quarter annualized rate will come in at 3.1%. Their forecasts still have 2019 as a transition year and 2020 listed as either low growth or recession.

In a belated shock announcement, the Congressional Budget Office (CBO) announced that the U.S. Government would take in $1.9 trillion less in revenue and spend $300 billion more over the next decade than the estimates issued by the White House indicated. The bi-partisan CBO is forecasting a resulting increase in deficits totaling $9.5 trillion in ten years.

No matter whose estimates we choose to believe, a very real practical result is that at some point taxes will have to be raised from their current levels, and interest rates will continue to rise in the next couple of years and possibly longer. We suggest you plan accordingly.

Until next week, we remain your faithful servants,



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