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) turned in a gain of 0.61% for the week, closing at 2818.82 after being higher earlier on announcements that the U.S. and E.U. had called a truce in the trade war. Then, as the GDP growth number was announced, the index sagged as did the other market indicators. The SPX remains up about 5.43% year-to-date and 14.03% from a year ago but notably has not responded favorably to the wave of much higher than expected second-quarter earnings reports. The tech-heavy NASDAQ composite index was down 1.06%.

In an interesting reversal, the yield on the 10-year U.S. Treasury note rose ten basis points to 2.955%, reportedly in response to the 4.1% annualized GDP second-quarter GDP growth report, which raised the probabilities that the Fed will continue to increase interest rates each quarter. Oil (WTI) remained fairly stable with a rise of 1.28% to $69.04 per barrel. Gold continued its seemingly inexorable slide, down 0.69% for one week, 2.65% for one month and 8.30% for three months to close at $1,232.70.

In another counterintuitive move, U.S. equity mutual funds saw the greatest outflows (sells) since the near-bear market of 2015 with a net redemption of about $21 billion in June. The redeemed proceeds appear to largely have been moved into bond funds. Given the recent rise in interest rates, which cause bond values to decline, we suspect there were some unhappy investors after their moves. The selloff, which started in actively managed funds rapidly spread to passive index funds and ETFs. In an odd way, that is good news. The mass of mutual fund investors historically tends to sell out just before the market moves up.

The Economy

The headline this week was the Commerce Department announcement of their first estimate for 2018's second-quarter GDP annualized growth rate at 4.1%. That sounds like a huge number unless one looks at the average so far this year and the other 4% quarters in the past few years. We had a better quarter in the 4th quarter of 2014 at 4.9% as well as in two quarters in 2011 but both were followed by gradually declining rates in the following quarters. As with this report, those two high growth periods were associated with surges caused by external events.

The earlier 4% quarters in the last decade were the result of post-hurricane production surges as repairs and delayed purchases and sales caught up. In this report exports surged, providing 1.06 points of the total. Another big part of the high growth rate in the quarter was a surge of business investment as companies rushed to buy equipment. Both of those surges appear to have been at least partly driven by a strong desire to export and import products in time to beat the impending tariffs. Both exports and business investment appear to have tailed off substantially in late June and into this month.

The other driver in this quarter's report was domestic consumer spending, rising at an annualized rate of 4%. It was in the second quarter that workers saw an increase in their take-home pay from the tax cuts and tended to spend the

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extra money. Once again there also appears to have been a rush to purchase some larger-ticket items before tariffs caused prices to rise.

So far this year, if we average the first quarter's 2.2% rate with this new estimate of 4.1%, the annualized growth rate for the first half-year has come in at 3.1%. A year ago, the reported final GDP growth estimate was 2.8% at this point. Another significant number this month is that this economic expansion became the second longest on record now running at nine years from its beginning back in 2009.

Both the Federal Reserve and a WSJ survey of economists predicted that the growth rate would decline starting with this quarter at 3.4% and 2.9% in the forth. In the longer run, the surge we are seeing now is forecast to pull the average from the 2.2% we have seen since 2009 down to an average of about 1.8% over the next five years or so.

The Conference Board announced their Index of Leading Economic Indicators rose 0.5% in June following no change in May and a 0.4% increase in April. The indicators are signaling that the economy should avoid a recession for the next six months to a year. The Conference Board's chief economist stated that the economy should remain healthy and grow at an above average speed for the remainder of 2018 and into 2019. Beyond that the degree to which existing tariffs continue and others are added will begin to have a greater effect on growth as the tax-cut stimulus wears off.

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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