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

Our beloved S&P 500 Stock Index (SPX) ended the week at a record high after breaking the record for bull market longevity on Wednesday. This prize bull has now gone 3,453 market sessions without a 20% closing decline from an earlier closing high, taking the trophy from the previous record holder that ended in 2000. The SPX closed at 2874.69, up 0.86% for the week, 7.52% year-to-date, and 17.67% from a year ago.

There are other, less precise measurements that suggest this bull still has a way to go before inevitably morphing into a bear. As reports of SPX member earnings for the second quarter begin to trail off, it is becoming clear that we will see the average earnings over 20% higher. As the market is not up as much, the average price-to-earnings (P/E) ratio has actually *declined* as earnings records were broken. Bull markets typically end with "irrational exuberance" as the market P/E ratio soars to absurd levels. Another bullish factor is the plethora of pessimistic news. Pundits warning of "apocalypse now" in the markets still outnumber those expressing optimism. As long as there are plenty of pessimists, there are still buyers and an abundance of money awaiting the "right time" to invest. In our experience, bull markets end when the last person waiting for the market to fall throws in the towel and buys stocks. That event does not appear to be close at hand.

The benchmark ten-year U.S. Treasury note yield ended the week at 2.816%, continuing its long, slow decline that started when the U.S. declared a trade war on most of the rest of the world. The concern remains that with the 2-year Treasury yielding 2.633% the "spread" or difference between the yields is now down to 0.183% and we have come closer to the dreaded "inverted yield curve" which historically has been a reliable predictor of recessions inbound within 18-24 months.

Gold, demonstrating again that it is not the metal that our grandfathers thought it was, rose 1.72% on all the good news although it remains down almost 9% year-to-date. West Texas Intermediate crude oil rose over 5% to $68.52 as the market assessed the shortages that will be created by reduced Iranian exports. That leaves it up almost 40% from this time last year and gasoline prices with it.

The Economy

The Federal Reserve minutes and Chairman Powell's comments at Jackson Hole this week strongly suggest that short-term rates will be up half a point by the end of this year. That would put the overnight interbank lending rate at about 2.5% and, barring a major reversal of longer-term Treasury rate trends, perilously close to a flat yield curve. U.S. interest rates may be suggesting trouble in 2020, but European rates are still acting like the trouble is now. As an example, the German two-year note is still producing a *negative* yield at -0.6% and the European Central Bank announced its interbank rate will remain at -0.4% at least through next summer.

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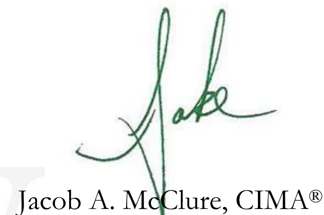
A lot of hope was generated when it was announced that China and the U.S. would hold talks this week on trade. Apparently, it has all come to nothing as both sides repeated their positions and insisted the other side back down. Here at home, average weekly pay for American workers rose 3.7% in the first quarter in a harbinger that more inflation and higher short-term interest rates are in the works. At the same time, U.S. non-defense capital goods orders rose 1.4% from June, a signal that manufacturing growth is still in place.

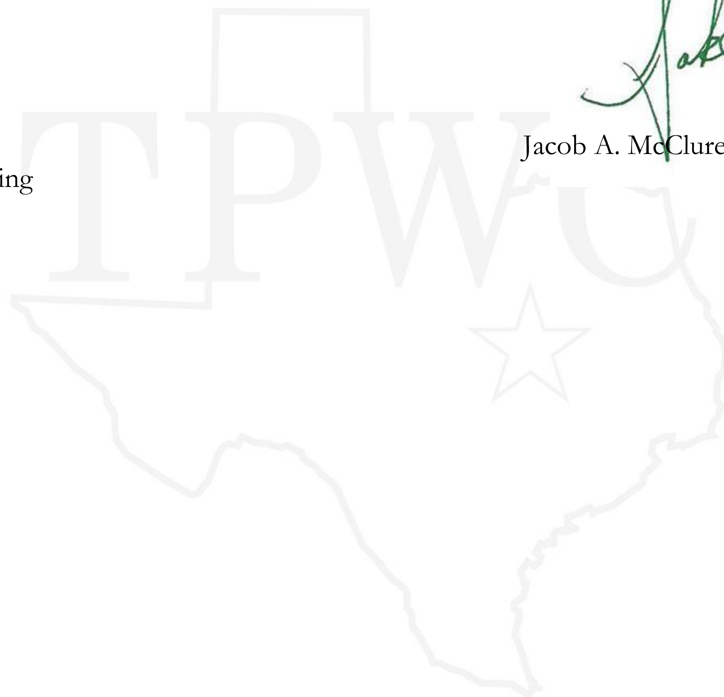
All the indicators we can see continue to point to an economy currently hyper-stimulated by the 2018 tax-cuts that is running well in excess of its longer-term capacity. In an increasing number of areas, weaknesses are beginning to show that suggest it will run out of capacity in late 2019 or 2020 then descend into a cyclical recession. It is still far too early to predict the severity of that slowdown but the forecasts for the rest of this year and into the next are for sunny weather with fair breezes.

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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