THE PERSONAL WEALTH COACH®

An SEC Registered Investment Adviser

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September 7, 2018

TPWC Market and Economic Update

The Markets

Our preferred stock market index, the S&P 500 (SPX) turned in a disappointing week, declining 1.03% to close at 2871.68. It remains up 7.41% year-to-date, and a solid 16.67% from this time last year. The culprit, as usual, was threatened tariffs. The recent charge upward in this bull market has been led by tech companies and those companies generally are dependent on components manufactured in China. Tariffs are taxes, and additional taxation on those companies could cause reduced profits and revenues in the future.

The yield on the ten-year U.S. Treasury note surged upward with the release of the employment report this week to end at 2.941% as even the doves on the Federal Reserve Board expressed that interest rates need to continue to rise to control future inflation. The dollar followed suit, rising 0.39% for the week and is now up almost 6.5% for one year to 89.65 on the WSJ Dollar Index (BUXX). The irony is that threats of tariffs seem to cause the dollar to rise against other currencies which make imports less expensive even as the U.S. imposes tariffs making the same items more expensive. West Texas Crude Oil declined 2.38% for the week to $67.86. Gold dropped another 0.42% to $1,201.80, putting it down 12.4% from this time last year.

The Economy

The Bureau of Labor Statistics (BLS) released its August 2018 Employment Situation Summary today. The unemployment rate held steady at 3.9% as did the actual number of unemployed persons at 6.2 million. Significantly, the number of long-term unemployed, 1.3 million, has declined by 403,000 in the last 12 months. The important news was that the U.S. total employment increased by 201,000 in August, suggesting that the hiring urge by employers is still strong. Complementing that number is the fact that layoffs remain at the lowest level in half a century.

The BLS also announced that U.S. worker productivity rose 2.9% in the second quarter of this year. That productivity increase is more impressive if one considers that wages increase, which subtracts from productivity gains. Average private hourly wages rose at a 6% annualized rate from July to August and are up nearly 3% from a year ago. It appears that the shortage of both skilled and unskilled workers is finally starting to have an impact on the economy.

It is a great thing to see that wages are rising faster than inflation and better yet to see that the increases are concentrated at the low end of the wage scale. The negative is that over the past few months those wage increases have been fast enough to apparently cause the recipients to spend their money even faster than they are making it. That, combined with price increases generated by tariffs, is causing the price of goods and services to increase and that is the very definition of inflation.

In a widely forecast event, the U.S. trade deficit jumped as exports dropped 1% and imports rose by almost the same percentage from July to August. The tax cut and increased government spending is stimulating the economy and has increased the value of the dollar, and the price of exports, by 6.5%. That same set of stimuli has also increased domestic spending and a big part of that spending goes to items either imported or containing imported parts. In a further economic irony, our trade deficit with China has surged to a record high since the U.S. started imposing tariffs. While it seems odd that increasing tariffs on a nation would make their exports cheaper to import, it is a well-understood phenomenon in economic science. Tariffs are an attack on an economy. If the attack is large enough, that country's currency will decline, making their exports cheaper. Generally speaking, tariffs don't work in the way they were intended except in very narrow areas. Large-scale trade wars historically do not have winners, only relative losers.

In summary, the story is unchanged. The U.S. economy is on a roll, stimulated by a trillion dollars per year federal government borrowing spree, running at a rate almost all economists agree is unsustainable, while the rest of the world is not doing so well. Those other economies, under increasing pressure, are increasingly turning to sell to us, their richest customer. The question is how long this imbalance can last and what level of debt the U.S. can sustain. The experiment continues.

Until next week, we remain your faithful servants,

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

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