THE PERSONAL WEALTH COACH®

An SEC Registered Investment Adviser

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TPWC Market and Economic Update

The Markets

Our dearly beloved S&P 500 Stock Index (SPX) finished the week at 2599.95, down 1.26% for the week and 10.5% for the trailing three months. That also puts it down 2.76% for the year. Last week it was barely in correction territory, but this week it has boldly gone into a full correction, down 11.3% from its high back in September. Chief among the worries cited by major traders was the impending trade war, followed by concerns about the economic health of China and Europe. While this correction is not pleasant, the level of worry and the reasonable pricing of the market suggest it is just that, a correction, rather than the early stages of a major bear market.

The ten-year U.S. Treasury note yield dropped another tenth of a percent to 2.893%, seemingly anchored below the 3% level that would suggest future economic strength. Still, it is up over half a percent from last year, indicating things are not that bad. West Texas crude oil too continued its slide, closing at $51.20, down over 25% in just three months. The dollar, as the go-to when things get bumpy, continued its rise, up 0.67% for the week with the WSJ Dollar Index closing at 90.88. More importantly in the trade-war environment, the dollar rose about half a percent against the Chinese Yuan, continuing to offset the Trump administration's tariffs. Gold was down about 1% for the week and 7.2% for the year at $1,241.40.

The Economy

Early signs appeared that indicate inflation may be awakening. Throughout this recovery, employers have held wages lower than has been seen in the past. Instead, employers have focused on improving fringe benefits as they are easier to take back. The labor department reported that seems to be changing as wages rose 3.1% from a year earlier.

Those wage increases may be part of what drove the Census Bureau's report on consumer spending up nearly one percent from October with the consumer spending category rising at a 6.9% annualized rate in the last three months. Retail sales, a big part of that consumer spending number is up nearly 5% from a year ago, excluding the volatile automobile purchase figures. Surveys of consumers suggest though that while spending will remain strong as we roll into 2019, by this time next year the tax cut stimulus will be fading, and other factors, including price increases from tariffs, may well depress those same numbers.

We mentioned last week that the U.S. trade deficit was at a record number and the reason came out this week as the Commerce Department disclosed that the cost of imported goods has only risen 0.7% since this time last year. The rising dollar combined with slower growth in China and the European Union simply are making import prices rise less than inflation, making them effectively cheaper. That bargain price environment combined with an American consumer who has more to spend than can be produced domestically is an ideal formula for record trade deficits.

Moody's Analytics, one of the more dependable economic forecasters, is forecasting that the U.S. GDP will have grown at a 2.9% rate in 2018, certainly better than the 1.9% average we have seen for some time. It is also predicting that the Euro Zone growth will be 1.9%, 6.6% for China, and 0.8% for Japan. The biggest differential from the past

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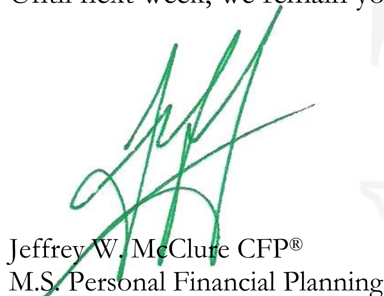
is that China's historical double-digit growth rate continues to decline as the economic law of diminishing returns asserts itself.

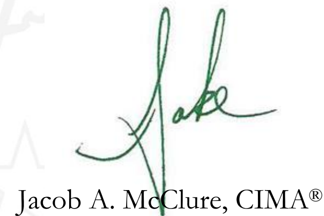
In a more worrisome note, the federal government announced that it spent $205 billion more in November than it took in in revenues. That raises the deficit for the first two months of the government's fiscal 2019 to $305.4 billion, up 51.4% from 2017. November's deficit was the highest in U.S. history. Unexpectedly, revenues were actually up 3.4% from last year but government spending was the record breaker, up 18.4% at $764 billion.

Housing sales continue to provide a reason for concern as home prices in Las Vegas and Phoenix, often seen as bellwethers in the longer-term economic outlook, declined. Those price declines followed cities like Denver and Seattle as unsold home inventories grew by about 12% from this time last year.

Across the board, the indicators continue to point to a current economic boom but with growing indicators that a year from now things may not look so rosy.

Until next week, we remain your faithful servants,





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