jeff@tpwc.com

THE PERSONAL WEALTH COACH®

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Jeffrey W McClure CFP® *Jacob A McClure* CIMA®

PO Box 1029 / 918 N. Main Street
Salado, TX 76571

(254) 947-1111
(800) 914-7526

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www.tpwc.com

jake@tpwc.com

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TPWC Market and Economic Update

The Markets

The headline on the Wall Street Journal's Markets page says it all. "Stocks Notch Fifth Straight Week of Gains." The S&P 500 Stock Index (S&P 500), our preferred broad stock market index, finally pulled ahead of where it started the year today, and there was much rejoicing. The Dow Jones Industrial Average (The Dow) was up 2.3% for the week while the S&P 500 rose 1.4%, closing at 2,049. It is up about 13% since its lows on February 11. Achieving a zero return for 2016, while the equity markets are still in negative territory for twelve months, doesn't initially sound too inspiring.

Only when one looks abroad does it appear that we are high on the mountain. Germany, that efficient financial and industrial engine of Europe, has a broad stock index too, the DAX. As of today's close, it is still down 7.4% for this year. China, our other major economic competitor in the world has its stocks represented by the Shanghai Index, and that one is down 17% in 2016.

There is a lesson to be learned here too. The reason the markets were down was that there was a greater volume of selling than buying. The Investment Company Institute reports that through February 17 about *$7 trillion* was liquidated from equity and balanced funds as the market fell. Since then the stock market has risen about 13% and those investors missed it.

Meanwhile, the relatively mild forward guidance from the Federal Reserve this week that two, quarter-point increases in rates, are probably in the works, rather than the four the Fed had suggested earlier, eased a lot of anxiety. It also eased the dollar back down to about $1.13 per Euro, which may help boost U.S. exports. The ten-year U.S. Treasury note, generally considered the benchmark in the bond markets, temporarily yielded about 2% earlier in the week before ending the week at 1.87%.

Oil has been the focus of much of the world's economic focus this year, and West Texas Intermediate closed today at $39.38 after briefly rising to just over $40. Brent, the other oil benchmark, ended the week at $41.20, up more than 50% from its 12-year low in January.

This week it became more apparent that the extremely low oil prices we saw earlier in the year, which in turn contributed to the market downturn, may not have been real indicators of what was happening in the real world. Not only was much of the downturn credited to short-sellers of oil contracts as we reported earlier, but it now seems that about 800,000 barrels of oil per day somehow disappeared. One of the driving factors in the plunging price was a series of reports from the International Energy Agency indicating about 800,000 barrels produced, on average, each day that apparently went nowhere. In retrospect, the IEA has identified oil used and oil in storage, and it adds up to a lot less than the total production reported. In the overall picture of a daily production of about 96 million barrels per day, missing an estimate about 1% may not sound like much, but when that 1% is multiplied by a year, the extra 300 million barrels can have an outsized impact on price.

There is still a lot of oil out there, and a lot of it is in storage, so oil prices are not about to jump back up too high, but the fear of running out of storage space has, at least temporarily, gone the way of the recession fears.

The Economy

Only a few years ago, the talking heads on cable TV were fear-mongering about runaway inflation. Instead, as we here at TPWC predicted, the thing to fear was deflation. Fortunately, the Federal Reserve Board of Governors and the White House agreed with us and took some quite substantive measures to get a wee bit of inflation back into the system. Europe and Japan are still struggling with the deflation monster and are suffering from the high unemployment that it brings, but here in the good old U.S. of A. we seem to be pulling ahead.

February's Consumer Price Index did drop about 0.2% in February and the Producer Price Index, which measures the cost of making and serving, was down about the same amount. The good news is that if we remove the 13% decline in gasoline prices from the numbers, the overall inflation number rose, year-over-year, by 2%. Meanwhile, the Fed's preferred index, the Personal Consumption Expenditure (PCE) index increased 1.5% year over year. The Fed has targeted a 2% annual rate of inflation as ideal. Once again, an explanation is in order. In a deflationary economy, buyers of just about everything put off buying things. That causes sellers to reduce the number of employees and reduce prices. That then causes buyers to delay further purchases and so on. If buyers begin to sense that prices may rise in the future, they will start buying sooner, causing employers to hire more people, etc. Here in the U.S., the Fed has set a target inflation rate of 2% per year, as has the European Central Bank (ECB), and the Bank of Japan. So far, the ECB and its Japanese cousin have both seen their economies move deeper into deflation rather than recover. Our Federal Reserve started pumping money into the economy and cutting rates earlier. Just as importantly, the Congress and the President decided last year to stop trying to cut spending and loosen up the purse strings a bit. Not by coincidence, the increased government spending may have been the final ingredient to tip us over into growth. The slight increase in spending may also be a major contributor to the reduced deficit this year as tax receipts have come in higher than expected.

There are some indirect indicators evident in the news that suggest the way things are going. First, the student loan delinquency rate dropped from above 22% last year to below 20%. That, like many another statistic, does not sound like much, but it is the trend that is important. The student loan delinquency rate has been rising for at least seven years, thus, a fall in that rate of about 2% is significant. The apparent primary reasons for the fall are an increase in the employment rate of college graduates and the new payment programs that limit monthly payments to a percentage of pay.

A second indicator comes out of the Port of Rotterdam in the Netherlands. At that point, the total volume of shipping has risen just under 5% in the last twelve months. The surest sign of whether we are headed for growth, stagnation, or decline in the economy is the shipping volume. At the same time, the port has increased its capacity by about 1/3 since the financial crisis. That it has grown capacity, by itself is not as important as how it did it. The Port of Rotterdam has expanded while reducing the number of workers employed there.

Companies in the port started seriously investing in remote and automated unloading equipment about five years ago. In 2013, the port increased its physical footprint by about 20% but the heavily unionized workers in the rest of the harbor sometimes refer to the new areas as the "ghost terminal." In that section not only are humans rarely seen, but they are also generally forbidden entry. Remote operators control up to three cargo cranes each, loading containers onto "container-bots" that transport the big boxes to the appropriate loading area to be transferred, again by automated devices, onto trains and truck beds. One of the few things that can jam the process is a human walking across the dock.

The robots don't go on strike, have sick days, accumulate vacation time, or demand double pay on weekends. What they have done though is contribute to the 7% unemployment rate in the Netherlands.

The robo-port in the Netherlands is an indicator of what is already happening here and around the world. It is also an indicator of what is bugging a sub-class of Americans who feel left out and left behind. Unemployment in the United States is now at a level that historically has been considered to be “full employment” but there are pockets of very unhappy people who are very insecure. That class of workers may be the reason that the United Kingdom (Great Britain) is flirting with leaving the European Union and why conservative primary voters are attracted to Donald Trump. Politics will not resolve the reality that technology is about to displace millions of workers. Driverless trucks are already a reality and as that reality unfolds there will be a great displacement. We can only hope that our next generation of political leaders will see the need to provide technological education opportunities for the workers displaced by that same technology. It is already happening in West Virginia as former coal miners are learning to be software writers.

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

Jake

Jacob A. McClure, CIMA®