THE PERSONAL WEALTH COACH®

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TPWC Market and Economic Update

The Markets

Stocks

The S&P 500 Stock Index was down 0.67% for the week, closing at 2.153.74. The Index is up 17.75% from its February low and up a measly 1.08% from its high point in March of 2015. One year ago, we were just clear of the "China is going to implode!" panic, its one year 6.89% return is now a better indicator. Still, not much happened last week in the stock market, and that is news by itself.

Again, a little perspective may be in order. Five years ago the S&P 500 was at 1,253. That puts the five-year average annual rate of return at 11.44%, nothing to be ashamed of. Unfortunately, five years ago we were in a government shutdown panic, so once again the return looks better than you probably have experienced. There is a pattern here. The best time to invest new money is in a panic when others are rushing for the exits. The drawback is that an investor cannot know exactly where the bottom of the slump will be. Generally speaking, when your urge to sell hits a panic level is almost always the ideal time to invest if one wants to see maximum returns. It is very hard to do that though, and very, very few are able. The second best option, at least historically, has been to invest when you have the money and then just stay invested when others are selling.

Bonds

The benchmark 10-Year Treasury note annualized yield rose to 1.723% this week. That puts it back where it was in mid-September, and well below where it was at the end of 2015, but still up from last week. It is up significantly from where it was several months ago, perhaps still indicating the long-awaited turn in interest rates forecast for the past several years. Yields remain low, and in the case of the 10-year T-note, are about the same as core inflation for the past year.

One of the bigger items in bond, or more properly, "bund" news this week is that the German 10-year Bund now has an annualized yield of 0.02% and is no longer negative. The two and five year bunds remain in negative territory, so the inversion has not come to an end in Europe.

Gold

We don't consider gold to be an actual "investment" but rather a "speculative commodity" but we do get questions and comments on it from time to time, so we thought we would give you an update here. Spot prices on gold vary hugely, depending on whether one is talking about the futures markets, bullion, coins, or jewelry, and even quantities and locations, so as a marker for what the gold market is and has been doing, we use SPDR® Gold Shares (GLD) as a proxy. GLD at least theoretically represents actual gold held by the Standard and Poor's Company, so is priced fairly close to what traders with thousands of ounces of gold to sell or buy would see as a market price.

Five years ago, GLD traded at about 160. At the market close this week it is about 120. That equates to an average annual return (decline in value) of -5.6%. It is up about 7%, or about as much as the stock market, from a year ago. It did look better a week ago as it has declined 4.7% in the last week.

The Economy

We very narrowly avoided a federal government shutdown again at the beginning of this week, but the funding is only through December 9, to get the confrontations past the elections. It will be interesting to see what Congress will do with at least some lame-duck members and the rest of the House and Senate members about as far from the next election as they can get.

Jobs

As usual, the big news in the economy is about what didn't happen. The Bureau of Labor Statistics (BLS) released its first estimate on September's employment numbers. Outside of farms, America filled 156,000 more jobs than it emptied. We need about 140,000 net new employees per month to keep up with new entries in the labor force as people graduate from school and arrive in this country to work. The numbers vary from month to month, so it is generally better to watch the three month moving average, which now is at 193,000 per month.

Meanwhile the unemployment rate rose from 4.9% to 5.0%. That is a tiny move and could just be noise in the estimate, but there is something significant there. We added more jobs than there were new graduates and immigrants, but the unemployment rate when up. A deep dive into the numbers reveals the reason. About 3 million people who were previously in the labor market but had dropped out reentered in September. A lot of those were marginal members who probably don't "need" to work, and had decided that finding a reasonably well paying job was too hard to do. That population of non-workers appears to be gradually returning to the jobs market. Those who are outside the labor market but could and have worked in the past are now about the same percentage of the working age population as we last saw in 2007 before the "great recession."

Quite notably, given the rhetoric, is the unemployment rate for white males in the United States. At 4.4% it meets the "school book" definition of "full employment." In other words, white males in our population who want to work are not having much in the way of trouble finding jobs. Anecdotally, and in surveys, employers are having more and more trouble finding reliable, literate workers to fill positions. From the Trump campaign statements and those of people attending Trump rallies, one could easily assume that unemployment, particularly among white males, is high. Surveys have indicated that many of those most displeased with the economy are themselves in better financial shape than at any point in their past, but are convinced that others in their ethnic population are worse off.

Brexit

The British decision to sever ties with the European Union is old news now, but a tremor went through world currency and gold markets as Teresa May, Britain's new Prime Minister, announced that she would start the 2-year countdown to the final exit this coming March. As the firm stance of both Germany and France have not changed and Ms. May is playing the hard line on her side, it looks like a hard break is likely. Her announcement sent the British Pound Sterling down to about $1.23, the lowest it has been in dollar terms in 31 years. That makes it a good time to visit the British Isles but also makes the cost of imports rise for those who use that currency.

Brexit leaders have repeatedly stated that a fall in the Pound Sterling is a good thing in that it will make British exports less expensive. The back side to that argument is that as the United Kingdom severs trade deals, those exports will be subject to tariffs that were not there before, thus resulting in those exports being more expensive. The net result appears to be that imports will and are rising in cost for the British, but their exports will not fall in price. As that becomes more apparent, investors holding British Pounds are selling them to invest in, among other things, dollars. As generally happens, the global free markets are adjusting for likely future events.

The variance in the British Pound has little direct effect on the U.S. economy other than to make it more expensive for the British to visit the U.S. and less expensive for Americans to go there. What is important is to take note that a government was elected in Great Britain with a trade agenda not unlike one proposed by one Presidential candidate in the upcoming elections. We can speculate on what effect the election of one candidate or the other might do, but here we have an opportunity to observe the results in another country. If the value of a nation's currency is, in effect, an economic poll on the health of that country's system, then the voting seems to be going against breaking trade treaties.

Prime Minister May has stated that she wants to renegotiate trade relations with both the U.S. and the European Union. That could work out well or it could be severely damaging to Great Britain and potentially the world economy. Either way it amounts to upsetting the status quo and starting over again. That is the bottom line to a lot of the political discourse around the world.

The Bottom Line

The news this week is that things happened, and some of them had the potential to shake things up, including a deal by OPEC to not increase oil output, but stocks are still in a holding pattern awaiting the outcome of the November elections. A general consensus now seems to exist that even the Federal Reserve is unlikely to change anything in their meeting just before that election date. It is a rare thing that we can influence the world and our own economy by the degree that presents itself with this election. The deadline to register is upon us, and early voting will soon begin.

The British referendum that resulted in its change in government and departure from the European Union, for better or worse, was largely decided not by a majority of British citizens, but by a minority. The "leave" side of the argument had a good turn out while many of those who indicated they wished to stay with the EU failed to vote. Our next President will not be determined by the polling numbers, but by those who actually vote. Most of those with whom we have spoken agree that the choice is between bad and worse, and that tends to discourage voting. Still, there is a very determined minority who want to overturn the system and inject some chaos into the American government. If those who prefer stability stay home, what we will get is change, and major change usually leads to "interesting" times.

Our advice is to become aware of how each candidate's economic policies would affect your investment values before you vote, then vote with that awareness.

Until next week, we remain your faithful servants,

Jeffrey W. McClure CFP®
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