THE PERSONAL WEALTH COACH®

An SEC Registered Investment Adviser

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TPWC Market and Economic Update

The Markets

The S&P 500 finished out the week at 2,263.79, up 0.25% for the week, 2.28% for the trailing month, and 10.76% year-to-date. The dollar rose a bit and is now trading at $1.04 per Euro.

Gold, trading on the U.S. Commodities Exchange, has had an interesting year so far. While it is still up over 6% year-to-date, it has fallen 15.62% in the last three months and is down about a third from where it was a couple of years ago and about half of what is was 36 years ago (not counting inflation). If you factor in inflation, gold has declined about 90% in 36 years.

Oil has managed to hang on to about a $53 per barrel level at about half of what it was two years ago.

The ten-year U.S. Treasury Note was yielding 2.54% at the end of the week up dramatically from around 1.3% in mid-July. Again for reference, the German 10-year Bund yields 0.26% and the Japan 10-year government note yields 0.052%. Something very different is going on here when compared with either of those nations.

Until recently, over the past several years, long-term treasury bond funds have done exceptionally well and, as a result, have seen a massive cash in-flow, much of which came from equity (stock) funds. We looked at one of the most highly rated, lowest cost, and most popular long-treasury funds and found it down about 19% since mid-July. We have commented on more than one occasions that when investors finally give up on stocks and stock funds as they did early this year, and start a massive out-flow from stocks to bonds, a bull market in stocks must be near at hand. Not much has changed in the mass behavior of investors in the 34 years we have been at this business.

The Economy

The big news this week got buried in most news reports. The Commerce Department, and more specifically the greatly beloved Bureau of Economic Analysis (BEA) revised the third quarter United States Gross Domestic Product (GDP) upward to an annualized rate of 3.5% from its earlier estimate of 3.3%. While that does not sound very impressive, compare that 3.5% number with the second quarter's 1.4% and the first quarter's 0.8% annualized rate and things begin to look interesting. Economists are expecting the last three months of the year, the fourth quarter, to produce a 1.6% to 1.9% growth, but we won't actually know the real growth rate until about two months into the first quarter of 2017. Meanwhile, we have seen an economic acceleration as we have passed through 2016, and that is good!

Economists have proven to be about as accurate as election pollsters were this year in predicting economic growth. The consensus is for 2017 to generate a 2.4% growth in GDP, but we recommend you not pay too much attention to that forecast. If we Americans feel good about ourselves in the coming year, we will generate a lot of growth. If we feel bad about our nation and ourselves, we will see poor growth. One of the most commonly overlooked fundamentals about the American economy is how the growth is generated. While we are not necessarily unique in this aspect, we are certainly well out ahead of anyone else. We have about the most self-sustaining economy of any developed nation in the world. Our biggest competitors, for example, Germany, Japan, and China, are all heavily dependent on exports. Here in the United States, around 70% of our economic activity is driven by Americans buying things, mainly from other Americans. That is why Europe can be teetering on the edge of recession while we need to raise interest rates to begin to slow things down here in America.

An important indicator of where our economy is going during most times is new-home sales. As of the end of November, new home sales were up 12.7% from last year to a seasonally adjusted rate of 592,000 just for the month. Another indicator with an even bigger economic impact is the sale of existing homes. We are running at about a 5.61 million rate so far in 2016, the highest rate since 2007.

As commonly happens, the recent increase in interest rates is having a stimulative effect on home buying. As interest rates are perceived by potential buyers as going higher, the interest in purchasing a home immediately rather than waiting rises apace. In essence, mortgage payments are inflating. People tend to crank up economic activity when they perceive that prices will be higher in the future just as they tend to dampen economic activity when they perceive prices will be lower in the future.

There was a very confusing set of news reports after the Census Bureau's Economic Indicators Division issued its monthly report on Durable Goods and Manufacturers' Shipments, Inventories and Orders. The *Financial Times* headlined, "Capital Goods Orders Jump in November," while the *Wall Street Journal* led its story on the same report with "Durable Goods Orders Fall 4.6%." The more media sources we read, the more confused we got. As sometimes happens, the news media reported whatever part of the news release suited their current narrative on how things were going. Oddly, the *Wall Street Journal* chose to report the negatives while the British-based news sources reported the positives. Both sets of articles gave a minor nod to the other side of the story in paragraphs buried deeply within the article.

So what really happened? New orders for durable, capital goods like airplanes, construction equipment, and the like, *did* fall 4.6% compared with the previous month after rising 4.8% in October. But, when one excludes the volatile transportation sector (mainly large orders to Boeing) durable goods orders *increased* 0.5%. Take out defense orders, and once again the number declines, but this time by 6.6%. There is more. The *shipments* of core capital goods by U.S. manufacturers rose more than expected in November, and that is what the positive stories were about. Are you confused yet? It turns out the assumption in Great Britain is that one counts goods as they are shipped while in the United States we count the *order* as the important thing.

The accurate way of looking at all those numbers is that domestic manufacturing in the United States is up nicely for the year-to-date. There are signs that manufacturing executives and the order flow are predicting a better 2017 than 2016. Month to month the numbers jump around so much that different reporters can write accurately that U.S. durable goods manufacturers saw a rise while they were seeing a fall!

There is more. There always is more, but that is the news for this week from your resident economic geeks.

Until next week, we remain your faithful servants,

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