THE PERSONAL WEALTH COACH®

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TPWC Market and Economic Update

The Markets

The S&P 500 Stock Index (SPX) ended the week at 2381.73, down 0.38% from last Friday's close. Despite being down for the week, its level is a significant improvement over where it was at the end of the day on Wednesday, when it dropped about 1.8%. Traders polled after Wednesday's slump credited the fall to a consensus that President Trump's tax overhaul was unlikely to pass Congress given the controversies and internal conflict emerging from the White House. Following that conclusion, earnings reality reasserted itself as oil rose above $50 per barrel and the SPX climbed about 1% over the following two days. That put the SPX up 6.38% this year and up about 16.05% for one year. The index remains about 12% higher than it was in May of 2015, and a whopping 30% higher than it was on February 11 of last year.

Despite all the sound and fury, neither gold, nor the ten-year Treasury note changed significantly this week. Notably, while it fell over one percent for the week, the STOXX 600 Index of European Stocks (EUR) remains ahead of the SPX for one year at 15.83% and year to date at 8.33% as Europe recovers economically. An indicator of part of what is right with U.S. Stocks can be seen in Deere & Co. (DE), better known to us as "John Deere" whose stock rose 7.30% following its announcement that profits rose 62% on dramatically improved sales in South America. (We are not recommending that or any other stock.)

The Economy

Despite the intense barrage of political news this week, there was no big news on the economic front. The news that was there was not only benign, but tended to confirm that the recovery and expansion we have seen unfolding since 2009 remains in place and is slowly accelerating. While we have read no small number of complaints about this "slow" recovery, it is one of the longest and most consistent since the end of World War II. That it is both slow and long is no coincidence. Regular business cycle expansions tend to be much faster than this one and, perhaps because of that speed, tend to run past the ability of consumers to buy and exporters to export. That results in an oversupply of goods and over-hiring of workers. Those overages then trigger a relatively sudden stop in goods ordered followed by a string of layoffs that degenerate into the next recession.

This time around, the recession was more severe and the recovery more global. Business owners are fearful of expanding too fast and their inability to raise prices in a global economy where one can buy from China about as easily as from a US business, has slowed down the expansion. Until the rest of the world catches up and is fully recovered, there is little chance of things getting out of control in the traditional sense. We, here in the United States are, quite literally, on top of the world. As long as no one "upsets the apple card", to coin a phrase, we are likely to have good times for some time. To give an example, the Federal Reserve discovered this week that one of the prime reasons there has been little inflation is the proliferation of unlimited data plans for mobile devices. By making the cost of doing more online effectively zero, that ability to purchase both digital content and goods and services from a larger market has stabilized prices.

The Federal Reserve Board conducts a survey every year in which it determines the overall health of the U.S. economy. That survey was released today and, in our opinion, it is one of the more accurate and profound indicators of where we are economically. Yesterday the Conference Board® released its monthly Leading Economic Index® ("LEI") a survey that since its inception in 1955 has successfully warned of every recession. Unfortunately, it also warned of more than a few recessions that failed to emerge as such. Still, since its inception, and, according to historical data for the past century, no recession has occurred without triggering the LEI alarm months in advance.

So, where are we? The Federal Reserve's survey reveals that last year, in 2016, 69% of Americans reported they were either living comfortably or "doing okay" financially, compared with 62% when the question was first asked in 2013. That 31% of Americans

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who report they are "struggling" financially are generally those with less than a bachelor's degree or have medical expenses that they are unable to pay. The bottom line to where we are is that more of us are better off than ever before, but there are still those among us who live in economic fear, primarily due to lack of education or poor health.

Perhaps the most important take-away from that survey is that most Americans are slowly, but consistently, becoming better off financially, and the percentage who are enjoying that improvement is slowly growing. There are voices in the media who insist that we are and have been declining, but the objective data reveals that is not reality.

The Index of Leading Indicators is reporting very much the same message. The Index rose at about a 4.9% annual rate between October 2016 and April 2017, about the same rate of improvement seen in the previous six months.

What this all means is that we Americans are doing well and likely to do better in the near future. At the same time, we are reading and hearing much worry from the financial world that some disaster must be looming. The pundits' reasoning is that the stock markets are near all-time highs and it has been over a year since the last major negative move in the market.

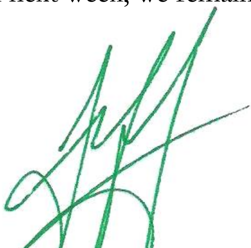
There is some reason for concern. This week the Federal Reserve Bank of New York reported that U.S. total household debt totaled $12.73 trillion, surpassing the record level reached in 2008. That initially sounds scary until we dig into the figures and find that credit card debt is not excessive and both auto and mortgage debts are as solid as they have been since measurements have been made. Another factor is that there are more of us in a larger economy than we had in 2008. The fastest growing sector and perhaps the one about which we should be concerned is student debt.

About 10% of student debts are in the "serious delinquency" category, a number not significantly higher than it has been in the past, but the student debt burden appears to be a factor in the limited number of new housing starts we are experiencing. Simply put, a couple with a heavy burden of student debt is unable to afford to buy a home for longer than a couple without that heavy debt load. The other concern is that in the event of an economic slump, that greater debt load on young families will have a far greater impact.

At the same time, mortgage delinquencies are near an all-time low as banks have restricted their mortgage lending to older, more established families who have low debt ratios.

Another concern that could stand in the way of better growth is that we are, in effect, at or near full employment. The number of job openings in the U.S. appears to be a bit higher than the number of people out of work who are looking for a job. As we have reported before, businesses are having trouble finding qualified workers to hire. At the same time those same businesses are, in many cases, unable to raise prices because of global competition, so they are restricted in bidding for new workers. The exception appears to be in some services where prices are rising and wages are following that lead. That worker shortage would normally be expected to trigger heavy investment in new equipment to increase productivity, but here is where political uncertainty is holding us back. If business decision makers knew how to figure the tax costs and deductions for several years out into the future, they would probably be buying that equipment, but with a tax proposal on the table that limits equipment deductions, they have adopted a "wait and see" attitude. The problem is that with the confusion in Washington, the "wait" may be a long one.

Until next week, we remain your faithful servants,



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