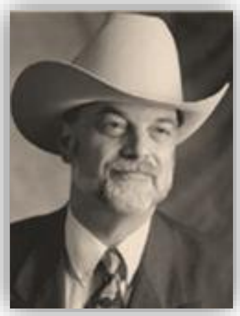

THE PERSONAL WEALTH COACH®

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TPWC Market and Economic Update

The Markets

The venerable Standard & Poor's 500 Stock Index (SPX) closed out the week and the quarter at 2519.36, up 0.68% for the week and 4% for the third quarter. Considering that the third quarter is normally the worst one for the stock market, that is no mean feat. The Index was up 12.53% so far this year and over 16% from a year ago.

The 10-year U.S. Treasury note turned in an increase in yield to 2.330%, with that yield 3.10% higher than last week. Of course, that means that the value of a note bought last week declined by about that same amount. U.S. Treasury yields of all maturities are up this year from last with the 30-year bond approaching 3%. It certainly appears that the long-awaited rise in interest rates is finally arriving. At the same time, investors apparently are pouring record amounts of money into bond funds. If interest rate rises continue, the point will come where the falling bond prices will outweigh the increased interest payout, and that will be a wake-up call for bond investors.

Gold declined 1.35% for the week, closing at $1,283.00 and was down about 4% from September of last year. West Texas Intermediate Crude Oil rose 1.84% to $51.58. Year-to-date it remains down 9.57%.

The Economy

A little noticed record was broken as the U.S. exported just under 1.5 million barrels of oil for the week as refineries came back on line and domestic oil production recovered from Hurricane Harvey. Meanwhile, domestic oil held in storage in the U.S. continues near record highs. There appears to be a consensus that oil prices will be limited on the upside in the foreseeable future.

The Commerce Department issued a revised estimate of U.S. GDP annualized growth in the second quarter at 3.1% up from the previous estimate of 3%. Exports grew at a 3.5% annualized rate as the rest of the world continues to grow economically. Business spending (nonresidential fixed investment) grew at a 6.7% rate in the quarter, a strong indicator of future growth as businesses purchased equipment, buildings, and software. Total business profits for quarter were up 7.4% from the same time last year. In short, the U.S. economy was on sound footing and experiencing healthy growth in the second quarter of 2017.

The Personal Consumption Expenditures (PCE) price index is only up 1.4% from the end of the third quarter of 2016 while the core elements are only up 1.35%. Consumer spending dropped 0.1% in August while personal income was up 0.2%. The drop in household spending, which makes up about 70% of the U.S. economy, could be a result of two hurricanes making landfall in August. Spending on durable goods, like automobiles fell 1% in August. While this could be a one-time decline, it was accompanied by an increase in the savings rate, suggesting that consumer spending may be peaking.

At the same time, the Federal Reserve still has billions of dollars in bonds on its books that it needs to get rid of. Classic economic theory warns that with inflation this low, raising rates should be avoided, but the Fed is in a bind, holding so great a bond value on its books could leave it with little room to maneuver if a recession were to come along in a year or so. Despite the low to no inflation numbers, the Fed is planning to reduce the bond value on its books. Selling bonds on the open market, or even not buying bonds to replace those maturing, tends to increase interest rates. More, there is a consensus that the Federal Reserve will announce another rate increase when it meets in December. Those actions have a slowing tendency, perhaps appropriate if the economy is really running well and threatening to overheat.

A quick summary of the economic state of America, and for that matter the world, as the third quarter ends is that we are seeing steady if unspectacular growth with near-record low unemployment. Extremely low inflation and interest rates remain a puzzle for economists but appear to not be the indicator of bad times they were once thought to be.

Until next week, we remain your faithful servants,

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

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