THE PERSONAL WEALTH COACH®

An SEC Registered Investment Adviser

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TPWC Market and Economic Update

The Markets

The S&P 500 Stock Index (SPX), our preferred market indicator, finished the week at 2642.22, up 1.53% for the week, just over 18% year-to-date, and 20.54% for 52 weeks (one year). The better known Dow Jones Industrial Average very notably ended November by crossing the 24000 mark, another landmark in stock market history. If something fundamental does not change, the long-anticipated "Dow 25000" level may be reached before the end of the year.

In an indicator of how fundamental rather than political issues are driving this market, the report on Friday that Michael Flynn, President Trump's former national security adviser, has agreed to testify that President Trump had "directed him to make contact with the Russians" before taking office caused the market to drop almost 2%, but it then recovered most of that loss by the end of the day. Historically, such a revelation would likely have resulted in a prolonged selloff in stocks.

The 10-year U.S. Treasury Note rose to 2.43% on Thursday on news that the tax bill in the Senate would pass and increase U.S. Treasury borrowing, but then dropped back to about 2.3% on the Flynn news. U.S. crude oil was down 1.15% for the week at $58.29, but is up over 4% for one month and up 6% for one year on a combination of increased global demand and an extension through 2018 of the OPEC agreement to limit production. Gold was down 0.73% for the week at $1,283.10 and is down 3.84% for three months.

The Economy

While the headlines were about the potential for a government shut-down as House conservatives objected to the deficit, the viability and shape of any new tax law, and the Flynn guilty plea, the real economy has continued to muscle forward with amazing resilience. In our opinion, we have passed from an economic recovery from the "Great Recession" to a true economic expansion in the last few months.

The Senate tax proposal reportedly will include a provision that will either raise taxes or reduce deductions in the event federal revenue falls short and the potential for a greater than $1.5 trillion additional debt appears. Tax revenue falls in recessions and raising taxes as we go into a downturn is the type of fiscal action that can turn a recession into a depression. That provision suggests that a significant number of Senators now have passed from fearing the next recession to believing that we will never again have one.

Consumer spending grew in October at a 5.3% annual rate. New home sales are at a 10-year high and consumer confidence is at a 17 year high. Meanwhile, inflation is up only 1.4% for one year. Another critical indicator was reported by the Commerce Department, that overall corporate profits for both public and private companies were up 10% from October of last year.

The largest single worry bothering economists about all of this is that a tax cut at this point both stimulates the economy and adds to federal borrowing. The Fed would be obligated to increase interest rates as the current economic growth rate in the U.S. is very near its maximum capacity (see below). That means that the additional borrowing would be at higher and rising interest rates.

The revised estimate from the Commerce Department that the U.S. GDP grew at 3.3% in the third quarter was generally accepted as good news, but there is a catch. The Congressional Budget Office has a maximum sustainable growth estimate for that quarter of $17.13 trillion, but the actual GDP growth was $17.17 trillion. The economy is quite capable of running ahead of sustainable growth for a period, but when it does there will be a price to pay down the road as it either pulls back or generates inflation. We will need to wait and see if that quarter's high growth was just a single blip or continues, but it is a cautionary item. Since 1990 the economy has risen above CBO sustainable growth levels for several quarters only twice. The first was in 2000 just before the fall and the second was in 2007, again just before the "Great Recession" contraction.

As usual, there is more, but we are trying to keep these missives short and readable.

Until next week, we remain your faithful servants,

Jeffrey W. McClure CFP®
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