THE PERSONAL WEALTH COACH®

An SEC Registered Investment Adviser

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TPWC Market and Economic Update

The Markets

In an unusual end to an unusual year, the S&P 500 Stock Index (SPX) declined 0.36% for the week, ending the year at 2673.61. It did manage to produce a rise of 1.19% for December, 6.12% for the fourth quarter, and 19.42% for 2017, so a bit of decline at the end can be easily forgiven. As good as the year was for U.S. stocks, the MSCI AC World Index, which excludes the U.S., did better with a 24% gain. Even that was put to shame by the MSCI Emerging Markets Index, up 35.53% for 2017. It was a good year to be invested in a diversified stock portfolio.

To put a little perspective on those impressive numbers, looking back five years, that same emerging markets index has only averaged 1.80% per year while the good old SPX has averaged 13.89%. Not all areas of the U.S. stock market did equally well as the NYSE Composite's five-year average was 9.1%.

Part of that exceptional rise in stock value this year came from the measure by which we figure such things, the U.S. dollar. In 2017 the Euro rose 14.1% against the dollar or conversely, the dollar fell 16.4%, ending the year with $1.20 required to buy one Euro. That gave European assets and earnings owned by U.S. companies a 14% boost when measured in dollars. It also added 14% to the dollar-value of European stocks. While our national ego would like to see a strong dollar, a lower dollar makes U.S. goods and services less expensive to the rest of the world and increases the dollar value of overseas earnings. Oil was up to over $60 per barrel and gold just over $1,305, both rises driven largely by the dollar's decline.

The Economy

Bloomberg conducted a survey of thousands of U.S. companies, asking what they plan to do with the tax windfall that is scheduled to come their way in 2018. It appears that rather than doing stock buy-backs as some had predicted, they will spend the lion's share of the new cash flow on plants and equipment. Publicly traded companies have been spending about $71 billion per month in that area this year but plan to increase that about 10% to about $78 billion in 2018.

That is a double dose of good news for the economy, but perhaps not so much for employment in the longer term. Capital expenditures, or CAPEX, as economists call that type of spending, has one of the larger economic ripple effects in that purchasing equipment and improving or expanding physical plants causes other companies to buy and make the things that go into the investments. If this survey is accurate, we should see an expansion in durable goods manufacturing over the next couple of years at something approaching record rates. In the longer-term, it should make American goods less expensive and more competitive globally. So far, so good.

The negative is that U.S. corporations report that it is hard to find qualified workers to make those additional goods and anticipate that problem getting worse over the next few years. At the same time, those same companies must compete in a global market and must keep prices low. That means offering higher wages to attract good workers when that higher cost cannot be priced into their products is a losing strategy. As wages go up in foreign countries, that too becomes less attractive. It appears that the solution many companies are pursuing is automation. If they automate with high-tech robotic solutions, companies can produce and transport and deliver more of whatever they

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sell with fewer employees. Those fewer employees, rather than being the producers of the product, become the operators and maintenance techs for the machines that do the work and thus can be paid more.

It appears that the trend away from low-skilled labor is about to accelerate and will thus exacerbate the economic gap between the traditional blue-collar worker and the high-skilled tech specialist. That is not good news for the parts of mainly rural America that are already in decline. It is looking more and more like we are in the third industrial revolution in our country's history. Industrial revolutions create a lot of "have-nots" even as they raise the incomes of the fortunate workers who have the education and thereby the skills to take advantage of the brave new world as it comes.

Until next week, we remain your faithful servants,

Jeffrey W. McClure CFP®
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