THE PERSONAL WEALTH COACH®

An SEC Registered Investment Adviser

Jeffrey W McClure CFP® *Jacob A McClure* CIMA®

PO Box 1029 / 918 N. Main Street
Salado, TX 76571

(254) 947-1111
(800) 914-7526

Serving Investors Since 1982

www.tpwc.com

jeff@tpwc.com

jake@tpwc.com

January 12, 2018

TPWC Market and Economic Update

The Markets

The S&P 500 Stock Index (SPX) continued its New Year celebration with a rise of 1.57% for the week and a whopping 22.49% from this time a year ago, closing at 2786.24. The Dow Jones Industrial Average, not to be outshone by S&P, turned in a 2.01% rise for the week and is up nearly 30% for one year, ending the week at 25803. Driving the weekly record-setting levels were comments by corporate executives that they are anticipating much higher earnings in 2018.

Apparently not wanting to miss the party, gold was up 1.42% for the week and 10.26% for one year, closing out the week at $1,339.10 per ounce, buoyed by a falling dollar. West Texas Intermediate Crude oil rose 4.66% and is up over 14% since last January, boosted again by a falling dollar as well as the potential for oil trading restrictions on Iran.

The Benchmark 10-Year U.S. Treasury Note ended the week yielding 2.55%, a dramatic rise from the just over 2% yield it had only four months ago. That 27% increase in yield in four months puts every other market-traded asset class to shame. The back-side to that dramatic rise in yield is that the market price of existing bonds moves downward as the current yield rises. Several well-known bond managers commented that it appeared that the 35-year bull market in bonds may have just ended and the long-anticipated bear market begun.

There is much print and plentiful commentary about how "overpriced" the stock market is here at the beginning of 2018, so some perspective is in order. Stock markets are priced according to their "price to earnings ratio" or more simply "P/E ratio." The higher the ratio, the higher the real price of the market. The 30-year trailing average forward P/E ratio of the S&P 500 is 18.82. The SPX value this week gives it a forward P/E ratio of 18.09, still below the long-term average. The market is not underpriced, as it was a year ago, but neither is it overpriced and due for a plunge. That is not to say we could not get a "correction" simply because we have gone so long without one, but the reason behind the delightful values we see in the market today is nothing less than solid earnings.

The Economy

Retail Sales rose 0.4% in December from the previous month. That less than impressive figure has to be put in perspective to grasp its significance. The Commerce Department "seasonally-adjusts" those figures to dampen out the Christmas rush, so we can annualize that one month figure making it a potential 5% increase. When one figures that about 70% of our economic activity here in the U.S. is in retail sales, a 5% annualized gain is a big deal. It appears that the American consumer is on a tear, increasing purchases by the most since 2014 in the last quarter of 2017. At the same time, core inflation rose 0.3% in December. Again, annualizing that number gives us about 3.7% as the inflation rate, higher than we have seen in the last year. Over the last six months, core consumer prices have been rising about 2.2% on an annualized basis, slightly faster than the Federal Reserve's target, but the recent evidence suggests the rate is accelerating.

Economists, including us, have been anticipating a rise in inflation and interest rates for the past several years and it finally looks like it may have arrived. That unexpected bump up in core inflation was given the credit for the rise in 10-year interest rates.

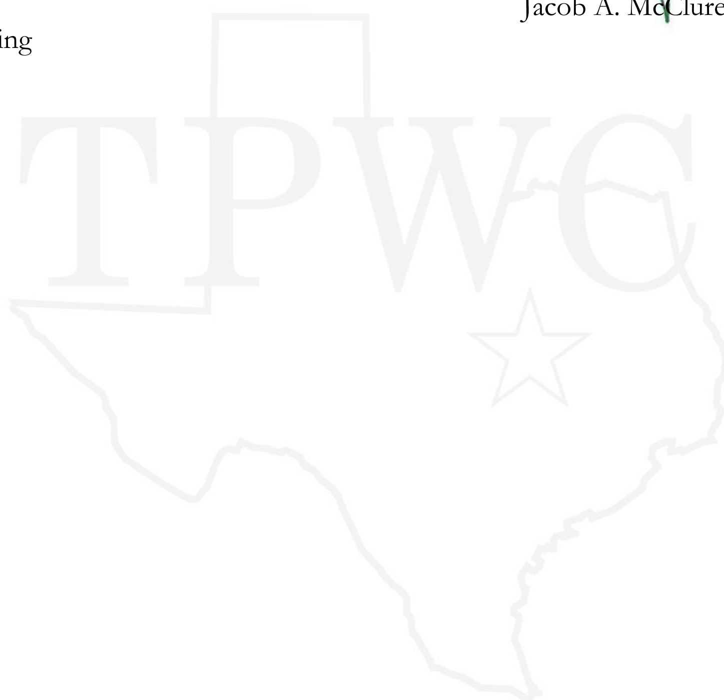
Information contained herein has been obtained from sources believed to be reliable but is not warranted as to accuracy or completeness. Past performance is no guarantee of future returns. For tax or legal issues consult with a qualified tax advisor or attorney. Investments when sold may be at a higher or lower price than when purchased. Refer to your custodial account statements for securities holdings and values.

Unemployment remains at 4.1% with average wage increases hitting 2.5% for the trailing twelve months. The Wall Street Journal surveyed economists and nearly all believe we are at or very near "full employment." If that is true, compensation will soon be rising. Throw in the tax cut, and net "take home" wages will rise even more. The falling dollar at the same time is increasing the price of imported goods, and we have a lot of those. If we were forced to guess, our guess would be that 2018 will be the year when we see inflation return to something above an unnoticeable creep. It is also shaping up to be a year with high economic potential. Still, do not expect to see another 20% rise in the stock market. The market is fairly priced, so a much more muted rise is the most that we should expect this year.

Until next week, we remain your faithful servants,

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

Jacob A. McClure, CIMA®



Information contained herein has been obtained from sources believed to be reliable but is not warranted as to accuracy or completeness. Past performance is no guarantee of future returns. For tax or legal issues consult with a qualified tax advisor or attorney. Investments when sold may be at a higher or lower price than when purchased. Refer to your custodial account statements for securities holdings and values.