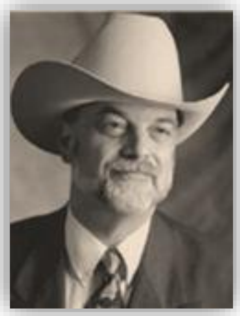

THE PERSONAL WEALTH COACH®

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TPWC Market and Economic Update

The Markets

The stock market, as represented by the S&P 500 Stock Index ("SPX") continued in a classic "correction" behavior. The SPX closed out the week up 4.30% at 2732.22 but remains down almost 5% from its high point of about 2873, three weeks ago. The roughly 5% rise just over a week ago appears not to be a "recovery" as much as it is a rise based on new information. As with all good corrections, that 10% decline was an adjustment in market value based on new information as well. The SPX is up 2.19% year-to-date and up 16.21% for one year.

The rise over the past eight days was a result of a stream of higher than expected earnings reports and guidance from publicly traded companies. Of the 349 companies in the SPX that have reported 2017 4th quarter earnings to date, about 78% have come in above expectations. Based on those reports, earnings are likely up about 15% from last year. More, about 70% of those companies have reported gross revenue above expectations.

In a nutshell, U.S. publicly traded corporations are reporting that their future appears bright, but longer term the economy faces an increased risk of inflation and higher interest rates as the federal deficit hits record numbers. Meanwhile, corporate America is on a roll and is beating expectations at or near a record breaking rate. When earnings are up 15% and appear to be accelerating, a 16% annual rise in the SPX is perfectly rational. The bottom line: stocks in the U.S. appear to be not overpriced and are rising at a reasonable rate.

The U.S. Treasury 10-year note ended the week yielding 2.873%, continuing an erratic but persistent move to higher rates. Crude oil was up 4.34% at $61.61 per barrel while gold rose 2.37% for the week to $1,349 as it reacted to a fall in the dollar's value against world currencies.

The Economy

The U.S. dollar fell to its lowest point in three years at 82.70 as measured by the WSJ Dollar Index. Europe, developing nations, and Japan all are showing improved signs of long-term growth and establishing new global trading agreements while the U.S. is talking trade tariffs, avoiding new trade agreements, and threatening to scrap existing ones. Large scale international investors consider free trade to be good for economies and trade restrictions to be damaging, so global funds are flowing out of the dollar and into other currencies. The dollar ended the week down 8.74% from this time last year.

On Thursday, the U.S. Treasury Department announced it will need to borrow just over a quarter of a trillion dollars next week. $121 billion of that was to cover loans coming due with new (and higher interest rate) loans. Read that again. The number was a *quarter of a Trillion dollars…* next week alone. Congress eliminated the debt ceiling last week, passed a $1.4 trillion tax cut, and enacted new spending of about $400 billion in short order. It is no coincidence that the Treasury Department immediately came to market to borrow $258 billion. The loans are relatively short term, from 13 weeks to 7 years, but the largest portion was for six months. All of that borrowing will need to be refinanced soon, at probably higher interest rates. The most amazing thing about that news is that it did not make headlines.

According to Mark Zandi, at Moody's Analytics, one of the very few economists to accurately call the 2008-9 mortgage bond implosion, the massive fiscal stimulus that has been enacted is going to goose the economy into overdrive this year and part of next. But, then the piper will need to be paid as the economy overheats, the Fed cranks up interest rates, and an economic stall-out is likely. He is forecasting unemployment to fall into the 3% range within a year or so. He is also warning that the traditional end-of-decade market decline and economic slowdown is being baked into reality by the fiscal actions voted into law this year. Will we have a recession or just slow growth and higher inflation? Only time will tell, but take note and be prepared.

Until next week, we remain your faithful servants,

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

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