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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) came back with a roar as the index rose to close at 2786.57, up 3.54% for the week. That kicks the year-to-date number from marginal to a gain of 4.22% and the one-year gain to 17.45%. Those numbers mark an excellent birthday celebration as this bull market is now officially nine years old. It is hard to remember that it closed at 676 back in 2009! Gold and the dollar were little changed. The yield on the U.S. Treasury's 10-year note continued to creep upward, closing the week yielding just short of 2.9%, signaling higher loan demand and potential inflation on the horizon. As a reminder, the 10-year note stayed locked in the 1% range for most of the past several years and has more than doubled its yield in just over a year.

The Economy

While the drama over trade tariffs continued with the administration now suggesting there might be carve-outs for nations at President Trump's direction, the big news was in the employment report. The headline was that our economy employed 313,000 more persons last month (seasonally adjusted) but the shocker was that more than 800,000 Americans joined the labor force (not seasonally adjusted). The household survey indicated that nearly all of that new worker surge was immediately hired. The net result was that even though 8/10 of a million workers joined the force, the unemployment rate remained at 4.1%.

That all translates into evidence supporting what some economists have suspected for a couple of years, that the unemployment rate is not revealing the size of the true workforce. That set of potential hires coming back into the workforce goes a long way toward explaining why wages have only risen about 2.6% over the last year.

The laws of supply and demand state that if a something is desired and is in short supply, the price will rise. Historically, when unemployment gets down to this level, wages start to rise faster and drives inflation higher but unemployment has been low for some time and wages have not surged. Now we can see that workers may not be as rare as the surveys and employers have indicated. Moody's Analytics is still estimating unemployment to be around 3.5% by the end of the year. The difficulty is that we cannot tell how deep the reservoir of available workers actually is, so the Fed will have trouble knowing when to slow things down.

In other news, the Trans-Pacific Trade Partnership (TPP) was signed today by the 13 remaining countries, minus the United States, who believe it to be in their best interest to have a bloc to oppose Chinese trade dominance. The advent of the TPP creates a fourth major trade block to compete with the European Union, China, and The United States. Ironically, Mexico and Canada are part of the TPP, enabling them to conduct trade around the Pacific and with each other at rates generally better than American companies will be able to get. A new trading bloc has emerged and unfortunately, rather than the U.S. being part of it, it will compete with us.

More evidence emerged that the "Great Recession" is now behind us as the European Central Bank dropped its pledge to buy bonds if the EU economy declines. That change in statement comes as employment is rising in the more distressed countries bordering the Mediterranean and northern European nations approach full employment.

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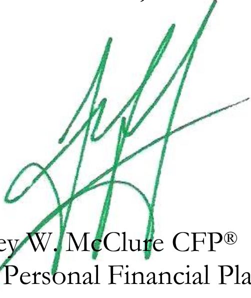
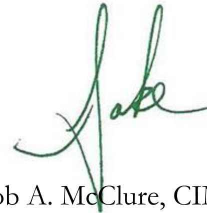
Annualized U.S. GDP growth for the fourth quarter of 2017 was recently revised to 2.5% but data about activity in December suggest that the third estimate may be as much as 2.9%. Don't get too elated because the data so far for the first quarter of 2018 looks like we are growing at 2.4%. The effects of the tariffs will not show up until later quarters and may slow us further.

Despite the stock market reprieve, there are far more uncertainties out there than a year ago and we are clearly closer to economic constraints. This type of environment historically has generated good growth but more variance with larger moves up and down, so keep your seat belts fastened. All indicators are still pointing to the market being higher at the end of the year, but with nothing like the gains of 2017.

Until next week, we remain your faithful servants,





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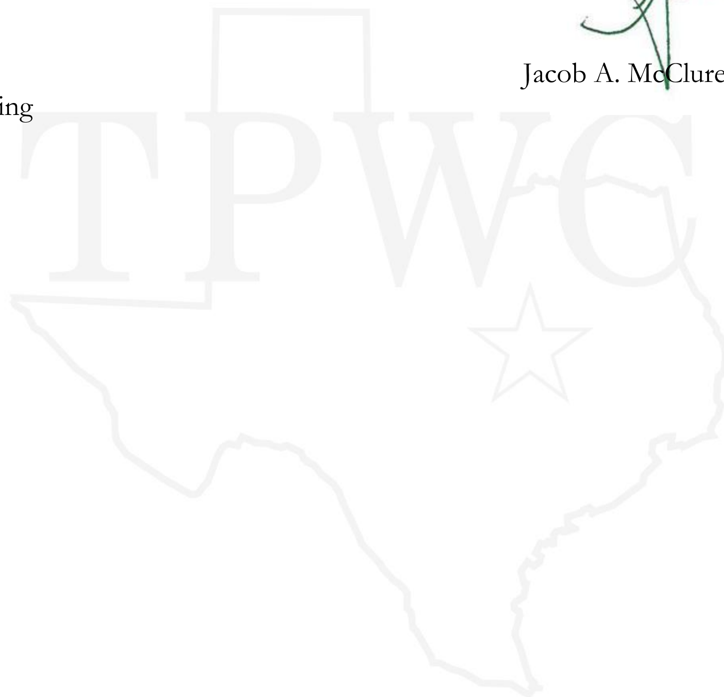

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