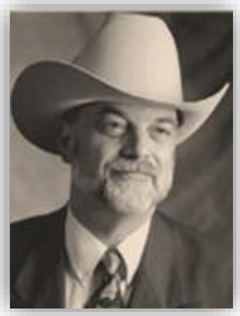

THE PERSONAL WEALTH COACH®

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TPWC Market and Economic Update

The Markets

The S&P 500 Stock Index closed out the week at 2572.01, down 1.24% from last week. It remains up 2.93% year-to-date, on track toward another double-digit year despite the week's less than stellar performance. The big "if" and the reason for the weekly decline remains the fear of a global trade war following the sudden firing of what Wall Street considered the two voices of economic reason in the Trump administration. There is a pervasive concern that if the verbal jabs turn into a real trade war, the U.S. economy will suffer, prematurely ending the nine-year bull market.

Those same fears of reduced economic growth drove the yield on the ten-year Treasury note down from over 2.9% at the beginning of the week to 2.846% on Friday. The dollar was almost unchanged for the week remaining down about 7.28% from a year ago against a basket of major currencies. Gold fell 0.76% to close at $1,313.90.

The Economy

U.S. industrial production increased a seasonally adjusted 1.1% in February according to the Federal Reserve and is up 4.4% from this time a year ago. The Commerce Department reported that capacity utilization, a measure of how much slack capacity remains in the system rose to 78.1%, approaching the long-term average of 79.8%. As the "Cap-U" as it is known, moves to and beyond the long-term mean, historically prices have started up and inflation becomes a threat. Whether that will happen this time around bears watching.

In a very positive sign for the economy, fixed non-residential investment in equipment, buildings, etc. rose 6.3% in the 4th quarter of 2017, signaling optimism and a willingness by businesses to invest in their own plants and processes. That investment increase was followed by a 4.4% year-over-year increase in factory production in February, the strongest annual growth we have seen in seven years.

While the year-over-year numbers show that we are in growth mode and there appears to be a good momentum, the threat to that rosy picture can be seen in the nearly 7% decline in Boeing stock price this week. Boeing is one of our principal exporters and is very sensitive to the price of aluminum. A trade war has the potential to cause major trade blocks and nations to place tariffs on American exports but more importantly, a 10% increase in aluminum cost in the United States would either make Boeing's large aircraft less competitive against other foreign aircraft manufactures or eliminate its profit margin.

In what may be a harbinger of things to come, federal government revenue declined by 9% in February when compared with a year ago. The cause was not a business slowdown, but the first full month of lower withholding from worker's paychecks resulting from the tax cuts. That decrease in revenue combined with the increase in spending from increased interest rates and spending bills passed recently raised the one-year trailing deficit to $706 billion, or 3.6% of gross domestic product (GDP). A year ago, at this point, the federal deficit was $583 billion for the trailing 12 months or about 2.4% of GDP. Moody's Analytics, as well as the Congressional Budget Office, have suggested the 2018 government deficit could go well above $1 trillion, or about double what it was for fiscal years 2016 and 2017.

Those are just numbers, but a doubling of borrowing by the U.S. government is a sizable increase in demand. Higher loan demand tends to generate higher interest rates, which then increases the deficit as interest payments rise. The grand experiment is underway.

One of the theoretical elements that were supposed to offset the revenue shortfalls from the tax cuts was to be a windfall from corporate taxes on overseas holdings and the repatriation of that money to America. Unfortunately, the new tax law also allowed U.S. companies to only pay about half the tax owed on overseas cash if the money was invested in illiquid positions. It appears that while some money is coming home, a lot of the cash was quickly invested in less liquid assets overseas, chopping the tax bill in half and keeping the money overseas. As Steven Shay, a senior lecturer at Harvard Law School and a former top Treasury Department Tax official put it, "This is clearly the result of rushed legislation."

Until next week, we remain your faithful servants,

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

Jacob A. McClure, CIMA®