jeff@tpwc.com

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

jake@tpwc.com

April 6, 2018

TPWC Market and Economic Update

The Markets

The U.S. stock market, as represented by the S&P 500 Stock Index (SPX) had another downer week, ending on Friday down 1.38% at 2662.84. That puts the SPX down 6.53% for one month and 2.59% year-to-date, but still up 10.57% from a year ago. The reason for the bearish mood was singular, but far from simple; a trade war appears to be heating up between the United States and China. The ramifications of the series of tariffs proposed first by President Trump and then by China in response are very much on the mind of investors and traders. See *The Economy* below for more on that.

The benchmark 10-year U.S. Treasury Note ended the week yielding 2.776% having bobbed up on rumors the trade disputes might be resolved and fallen again on the President's $100 billion tariff announcement late in the week. Gold closed at $1,337, also tracing the ups and downs of the trade announcements. Aluminum dropped in price as it appeared the new tariffs and counter-tariffs might reduce demand for the metal even as aluminum smelters opened up to provide potentially 37% more supply. Steel, on the other hand, is up 34% since the import tariffs went into effect.

The Economy

The Institute for Supply Management said its non-manufacturing index fell to 58.8 in March from its earlier high of 59.5 in February. Any index number above 50 is expansionary and numbers below 50 indicate a decline in business. Business activity and production growth fell in March, but the employment index continued to rise. The reports from purchasing managers indicate the business outlook is steady, but also report a rising uncertainty and caution because of pricing volatility related to the tariffs and threats of tariffs.

Employers added 103,000 jobs in March according to the Labor Department. That remains above the 100,000 needed to absorb new entrants but was a dramatic drop from last month's numbers and about half the number of the last six month's average. March marked the 90th consecutive month has added net jobs. One weak month is not a significant issue but bears watching. Wages were up 2.7% from last March, a number consistent with reports over the last year. Unemployment held steady at 4.1%, the lowest level since 2000.

The U.S. trade deficit rose to the highest level since 2008, in the midst of the "great recession." A factor in the rise was the large-scale borrowing by the Treasury as the federal deficit remains on track to hit $800 billion this year. As much of that borrowing was from overseas sources, the incoming billions of dollars in loans are counted as imports.

Across the board, the domestic and world economy continue to show strength and a healthy momentum. Despite the current good news, there is an undercurrent of worry and concern about the results of a trade war. The reason for that fear is a bit complex may need some explanation.

The U.S. has imposed tariffs on a long list of items, starting with steel and aluminum and is threatening to double-down on that list. Tariffs normally make the prices of those items go up. Throughout history, tariffs by one country trigger tariffs by the country or countries targeted. That causes exports to be more expensive and less competitive, potentially slowing our economy and creating layoffs. Meanwhile, the higher cost of imported goods shows up as inflation, i.e. higher prices for the same items. As a significant portion of our economy is based on using and selling goods made in China, prices have the potential to rise across the board. Workers paying more for the same items tend to demand higher wages to compensate. Those changes are the root causes of inflation. The Federal Reserve then is obliged to raise interest rates to reduce the inflationary pressure. Higher interest rates cause people and companies to buy fewer things, and the reduced demand tends to cause prices to fall. Falling sales and rising supply prices put the squeeze on profits. Profit squeezes are bad for companies, stocks, and the economy.

Here is the rub. As the Treasury's borrowing approaches a trillion dollars per year, if interest rates rise a crisis could develop easily. The combination of a business slump with higher prices (inflation) and higher interest rates is a frightening thing to the business and investment community.

As we wrote above, the economy remains quite healthy but a very real threat to that health could develop if the threatened tariffs go into effect and worse, escalate.

Until next week, we remain your faithful servants,

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

Jacob A. McClure, CIMA®