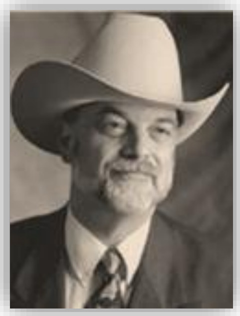

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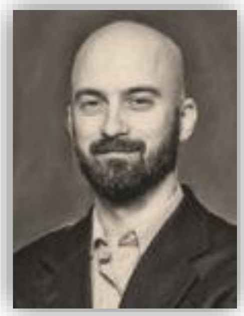

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TPWC Market and Economic Update

The Markets

Our dearly beloved S&P 500 Stock Index (SPX) closed out the week with a decline of 0.01% ending at 2669.91, which was essentially no movement. Had you watched carefully during the week though, you would have seen it flirting with 2600 after bobbing up to 2775. That ending no-move number leaves us down 0.14% year-to-date, down 7.06% for three months, and up about 12% from a year ago. With over half the SPX companies now having reported first-quarter earnings, the trend so far is for a 25% year-over-year earnings gain, but the market remains flat for the year and only up half that much since this time last year. The good news is the market's price-to-earnings ratio has declined to a low-to-moderate level as earnings have risen while the market price lagged behind. In short, the market remains low-to-fair-priced.

Caterpillar, Inc. (CAT) is a prime example of what ails the market. CAT reported a 31% increase in sales in the first quarter but saw its shares drop 6.2% after the news. Even as the CEO announced record sales and earnings, he warned that the recently imposed tariffs had increased the price of steel and that labor shortages will likely increase employment costs over the next year. He went on to state that if the trade war between the U.S. and the rest of the world continues, things will get rough for American manufacturing. In short, he warned that this report may be better than ones in the future. Another example can be seen in 3M (MMM) as it too reported record sales and earnings, but has seen its stock price fall 22% since the end of January when tariffs were first announced. (Note that we are not recommending investment in those or any other specific securities.)

West Texas Intermediate crude oil (WTI), like the market, was essentially unmoved for the week but remains up almost 14% year-to-date and up nearly 35% for twelve months at $68.04. The oil pumping slowdown from OPEC countries appears to be working and U.S. producers love the fresh cash flow. The benchmark 10-year U.S. Treasury note yield briefly rose above 3% on Wednesday then closed the week at 2.96%. That puts the yield up about half a percent for 2018 and nearly three-quarters of a percent for one year. Interest rates are rising. Gold declined about one percent for the week and is down about 2.6% for three months at $1,324.60. The dollar rose 1.14% for the week but remains down 0.76% year-to-date and nearly 5% for one year.

The Economy

One of our favorite organizations, the Bureau of Economic Analysis (BEA), part of the Commerce Department, announced that the U.S. economy grew at a seasonally adjusted annual rate of 2.3% in the first quarter. A lot of numbers go into that first estimate, but the key takeaways were that as the tax cuts put more money in people's bank accounts, they reduced spending and instead set about paying down debts and pumping up savings. Household spending rose at 1.1%, the slowest rate in nearly five years. Businesses, on the other hand, seeing a major tax advantage in buying new equipment, went on a bit of a binge. Corporations appear to be spending even more of the tax cut windfall on share buy-backs than on new equipment, another indication that stocks may be underpriced.

U.S. durable-goods orders rose 2.6% in March, primarily due to aircraft and other transportation equipment orders. Orders were up 8.7% when compared with last year. Another reflection of the tariff impact can be seen in March's

1.7% decline in machine orders as prices jumped from the steel and aluminum tariffs. Notably, without the transportation component, orders would have been flat.

In an odd piece of good news that only an economist can appreciate, Morningstar reported a net $22 billion was withdrawn from domestic stock mutual funds and ETFs in March by retail investors even as they added almost $16 billion to taxable bond funds. Historically, the stock market is in a "bubble" and due for a fall when retail investors pour money into equity funds and empty out their money market and bond holdings. The investment behavior of the mass of retail investors, at least in history, has proven to be a nearly perfect contrarian indicator. It appears from this statistic that we may be in for more market appreciation in 2018. In this case, rising interest rates are likely to hurt bond funds while stocks are probably a bargain, so of course, retail investors sold stock funds and bought bond funds.

Until next week, we remain your faithful servants,

Jeffrey W. McClure CFP®
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