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

jeff@tpwc.com

jake@tpwc.com

May 4, 2018

TPWC Market and Economic Update

The Markets

Despite, or maybe, because of the good economic and earnings news during the week, the S&P 500 Index (SPX) declined another 0.24% to close 2663.42. That leaves it down 0.38% so far this year but still up 11.01% from this time last year. The only thing that moved less than the stock market was the benchmark ten-year U.S. Treasury Note as its yield declined a whopping 1/100th of one percent to end the week yielding 2.952%. The WSJ dollar index rose 1.01% for the week, leaving it down about 4% for one year and gold declined 0.61% to $1,316 while oil (WTI) continued its climb, rising 2.68% to $69.79. That puts the U.S. benchmark oil price up over 42% in a year, and it is showing at the gas pumps.

The Economy

The headline news is that April's first estimate for unemployment from the Labor Department came in at 3.9%, the lowest number since December 2000 while the economy added a net total of 164,000 jobs. That brings this year's average monthly hiring count to 200,000. April's job gains also break the all-time record for consecutive months of employment expansion at 91 months since October 2010. The overall economic expansion now has run for 107 months, becoming the second longest on record.

Unemployment dropping below 4% has only occurred three times before since WWII, and two of those three were during war-time with the military draft accounting for a large part of the low unemployment rate. The only other time was during the tech boom of the late 1990s and the year 2000. In all of those previous events inflations has taken off and had to be tamped down by the Federal Reserve raising rates, which ultimately led to recessions. This time around wages since this time last year have only risen 2.9%. That matches well with the 2% annual increase in the Personal Cost Expenditures (PCE) index announced by the Fed earlier in the week.

The single worrisome note in all this good economic news is that the labor force slightly contracted in April and that, in part, contributed to the drop in the unemployment rate. Still, our labor force has grown 1.3% in the last 12 months. Productivity did rise for the month and is up 1.1% from a year ago. Meanwhile, the number of job openings posted continue to grow considerably faster than the labor force, and there is anecdotal evidence that wages could soon be growing at a 4% annual rate. That could easily force the Fed into faster interest rate increases and set the stage for a recession around 2020.

The Institute for Supply Management (ISM) reported that its non-manufacturing index, which includes quite literally everything in business except manufacturing, fell from 59.9 back in January to 58.2 in April. Since any reading above 50 indicates expansion, it is still a positive report but indicates that the rate of growth in the economy is slowing. Respondents to the survey cited rising prices for raw materials and difficulty in finding qualified workers as the source of the slower rate of growth. They also reported that companies are holding off on expansion plans in light of the uncertainty surrounding the growing threat of a trade war. At the same time in a separate report, the ISM announced that the U.S. manufacturing index has declined from March's 59.3 to 57.3 in April with surveyed businesses citing the same difficulties and concerns as the non-manufacturers.

With earnings reports largely in for the first quarter of 2018, it appears that corporate revenue has risen about 12.1% over the trailing year while corporate earnings (profits) were up about 25%. The sudden jump in profitability can be traced to a single item, the tax cuts instituted this year. The combined wisdom of stock market investors seems to have identified this issue as the SPX is up 11.01 percent and has largely ignored the sudden surge in profits as a one-time event that could vanish as quickly as it arrived.

Part of that investor caution is beginning to show in the agriculture industry where farmers and agribusinesses suddenly have found themselves with large surpluses as China has virtually halted orders for U.S. food while turning to Brazil and other large agriculture exporters for their new orders.

Until next week, we remain your faithful servants,

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

Jacob A. McClure, CIMA®