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

May 11, 2018

TPWC Market and Economic Update

The Markets

Our favorite stock index, the venerable Standard and Poor's 500 (SPX) turned in a respectable gain for the week ending May 11, gaining 2.41% to end at the memorable number of 2727.72, demonstrating an economy in numeric usage that is almost elegant. More valuable was the fact that it is now up 2.02% year-to-date and 14.09% from this time last year.

The benchmark 10-year U.S. Treasury Note, from which many loan interest rates are calculated, continued its slow but consistent rise to close the week at 2.969% after once more crossing the 3%-line mid-week. Gold, that "magnificent anachronism" ended at $1,319.50, up 0.27%. West Texas Intermediate Oil (WTI) rose 1.12% for the week and is up over 18% this year and almost 43% for 12 months, closing out the week at $70.57. The dollar was largely unchanged versus other currencies but remains down about 4.37% from a year ago.

The Economy

Unemployment at 3.9% remains at the lowest level in 17 years and the number of Americans applying for jobless benefits last week hovered just above 200,000, the lowest level since 1969 when our economy was a fraction of today's size. At the same time, unfilled advertised job openings rose to a record 6.6 million. In an unusual parallel, the total number of unemployed Americans almost perfectly matches the number of job openings. Unfortunately, a combination of the skills of the unemployed and their geographical locations don't match up with those openings very well.

The Labor Department announced that the Consumer Price Index (CPI) rose 0.2% in April after falling 0.1% in March. Those numbers put the three-month trailing inflation rate average at 1.8% (annualized). That has a significant impact on the 2.6% average wage gain from a year ago, leaving workers with only a 0.8% real gain on average. The Personal Consumption Index, the one preferred by the Federal Reserve as an inflation indicator, is up exactly 2.0% for one year; precisely what the Fed has been striving to create for several years.

Historically, an unemployment rate below 4% and a clear shortage of qualified workers has led to an acceleration in wages as companies begin to bid up the cost of labor in order to fill empty slots. This time around it *appears* that historical relationship has vanished with the emphasis on the "appears." What has actually happened does not show up well in the "averages." Jobs that can be automated or which can be outsourced to lower wage areas are seeing a lower or constant wage while those jobs that involve complex skill sets and cannot be done either by automation or someone far away have seen hefty gains in hourly earnings. Truck drivers, hair stylists, plumbers, and other workers who both need to be physically present and have extensive training and/or experience are in high demand and are seeing the bidding war for their time rise just as we have seen historically.

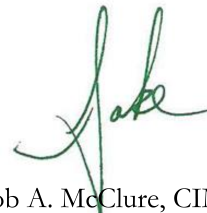
On another note, the *Wall Street Journal's* survey of private-sector economists found that 59% expect this economic expansion that began in 2009 and is currently the second-longest on record, to end sometime in 2020. If they are right, then by that time it will have broken all records for longevity. The good news is that there is a consensus that 2018 will likely be a good economic year and it will be late in 2019 before things start to look not-so-good.

Information contained herein has been obtained from sources believed to be reliable but is not warranted as to accuracy or completeness. Past performance is no guarantee of future returns. For tax or legal issues consult with a qualified tax advisor or attorney. Investments when sold may be at a higher or lower price than when purchased. Refer to your custodial account statements for securities holdings and values.

As inflation has risen, so have interest rates and there is another consensus that two years hence interest rates will be noticeably higher. Higher interest rates because of an accelerating economy will likely cause bonds and bond funds to decline in value, while an accelerating economy is good for stocks. Given that set of circumstances, it is both mystifying and historically normal to note we are seeing retail investors withdrawing money from stock ETFs and mutual funds and then investing the proceeds in bond funds. History teaches us that as long as that is happening, the stock market is probably underpriced, and the bull market is still alive and well.

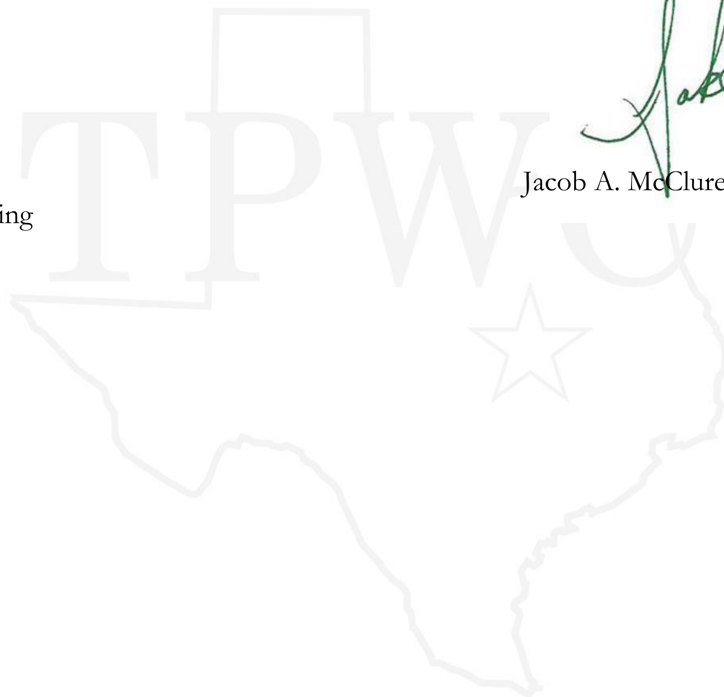
Speaking of stocks, first-quarter earnings have now been reported for 444 of the S&P 500 companies and the results are encouraging. 78% beat earnings estimates and 75% beat revenue estimates. Earnings (profits) are up 24.5% from a year ago, at least partly because of the one-time tax-cut effect, but more importantly, revenues are up 9.3% for one year. The companies that make up the stock market appear to be doing quite well!

Until next week, we remain your faithful servants,



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

Jacob A. McClure, CIMA®



Information contained herein has been obtained from sources believed to be reliable but is not warranted as to accuracy or completeness. Past performance is no guarantee of future returns. For tax or legal issues consult with a qualified tax advisor or attorney. Investments when sold may be at a higher or lower price than when purchased. Refer to your custodial account statements for securities holdings and values.