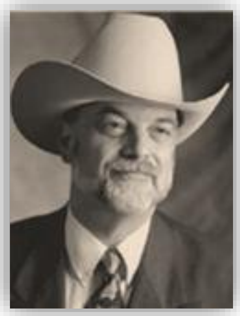

THE PERSONAL WEALTH COACH®

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TPWC Market and Economic Update

The Markets

The stock market continued to drift, this time to the downside, as the S&P 500 Stock Index (SPX) lost 0.54% for the week, ending on the 18th at 2712.97. It does remain up a meager 1.54% year-to-date, and a substantial 13.91% for one year but so far in 2018 equities both here and abroad have been in the doldrums. The Euro Stoxx 600, the EU's parallel to the SPX, is up only 1.41% so far this year but has the misfortune of only being up 0.81% for twelve months.

The ten-year U.S. Treasury note yield rose to 3.125%, the highest in 11 years, before settling down to 3.058% to end the week. It is now clear that the benchmark is likely to remain above the psychologically important 3% level. Gold dropped 2.03% in value, closing at $1,291.70 while U.S. crude oil continued its relentless rise by 1.19% to close at $71.35. As U.S. interest rates rose, the dollar followed suit with the WSJ Dollar Index appreciating 1.08% for the week putting it up 1.38% for 2018 and only down 1.72% for one year. Mortgage rates, moving with the Treasury note are also at an 11 year high.

The Economy

Oil prices are up, not only from reduced supply as Venezuela's production system collapses and the threat of an economic blockade of Iranian oil but also from increased demand as the world economy continues to build a head of steam. The obvious question is, "If the U.S. economy is running hot and the world is as well, why are stocks not rising?" The reported culprit on all fronts is the threat and actuality of trade wars. The United States is the center of world commerce and the traditional champion of free trade. In the assumption that we would remain in that role, companies both U.S. and foreign, have globalized both sales and supply. Europe and Asia are even more dependent on international trade than the U.S., but corporations in all three areas have increased efficiencies by diversifying supply and sales locations across the globe. Many, and likely most large, publicly traded corporations are dependent on the free flow of goods and services across international boundaries. If tariffs are imposed, those tariffs are, in effect, an internal tax on corporate profits.

To give some idea of the effect of just the tariff on imported steel, the price of steel, as indicated by the NYSE Steel Index, is up 39.28% for one year. In the U.S. hot-rolled-steel is now priced at $972 per metric ton, while the same metric ton of steel averages $671 in Europe and $612 across the rest of the world. That increase in steel costs in the U.S. creates a necessity for products made from steel by U.S. manufacturers to either be priced higher than those made elsewhere in the world or to be sold at a reduced profit or even a loss if made domesticaly.

The very justified fear is that if the tariffs persist, U.S. manufacturers will be forced to either move overseas or go out of business. We simply don't have the workers to make everything we use domestically, and when domestically made products are forced to be more expensive, the long-term effect does not look good.

Two more issues are worrying the markets. One is the increasingly evident labor shortage. We simply do not have enough workers to do manual labor and the administration has effectively limited legal immigration by not staffing the department that issues work visas. Other areas in the economy are also running up against worker shortages as the tax cuts spur more domestic commerce and the people needed to move goods around in warehouses and drive the trucks are already fully employed.

The last issue that is causing investors to fear future profits will decline is a combination of inflation and interest rates. The tax cuts in effect this year are adding to economic growth, but with workers in short supply and interest rates rising to head off inflation, corporations are encountering resistance. The surging U.S. economy, widely forecast to rise to a 3% annualized GDP growth in the second quarter, may well push the profits from this expansion overseas while driving up costs at home. The looming threat is something we haven't seen since Jimmy Carter, "stagflation."

The economy continues to run strongly and is likely to stay on that track for another year or more, but stock investors looking at the longer term are questioning the future value of corporate America if the trade-tariff trend continues.

Until next week, we remain your faithful servants,

Jeffrey W. McClure CFP®
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