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

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TPWC Market and Economic Update

The Markets

Despite a lot of drama that occurred during the week, the venerable Standard and Poor's 500 Stock Index (SPX) rose a respectable 0.49% for the week ending June 1 to close at 2734.62. That raises the year-to-date figure to 2.28% and the 52-week (one-year) gain to 12.12%. During the week the SPX was down to 2677 on Tuesday, following the administration's announcement that the steel and aluminum tariffs were being imposed on Canada, Mexico, and the European Union (EU). The recovery and the gain happened on Friday as the unemployment rate declined to 3.8%, a tie for the lowest rate since 1969 and a modicum of stability appeared to be asserting itself in Italy.

In the face of an escalating threat of a trade war and a potential crisis in the European Union, the U.S. 10-year Treasury note's yield dropped to 2.898% at the week's close but was far higher than on Tuesday when the yield declined to about 2.76% momentarily following the tariff news. The dollar meandered in a narrow range with the WSJ Dollar Index (BUXX) closing at 87.33, down 0.12% for the week. In potentially good news for drivers, West Texas Intermediate oil closed at $65.71 per barrel, down 2% for the week and 5.6% for the month. It remains up almost 31% for one year, and that is reflected at the gas pump! Gold continued what appears more and more to be a slow but relentless decline, down 0.67% for the week at $1,297.80 and down 2.76% from three months ago.

The Economy

The noise was, as usual, coming out of the White House, while the solid economic facts were being released by the Labor and Commerce Departments' bureaucrats from the Bureau of Economic Analysis (BEA) and Bureau of Labor Statistics (BLS), two of our favorite organizations. The BLS announced that the jobless rate dropped another tenth of a percent to 3.8% as employers hired an additional 223,000 persons in May. Just as importantly, the Bureau reported that average hourly wages were up 2.7% from this time last year, with much of that gain coming at the lowest end of the wage scale. Employers have been adding to the total number employed now for 92 consecutive months, making this the longest continuous jobs expansion on record. A relative minor, but quite important footnote is that the unemployment rate for women, 3.6% for May, is the lowest since 1953.

In other good news, the Institute for Supply Management's (ISM) manufacturing index rose to 58.7 after two worrying months of small declines. Any number above 50 indicates expansion. Reports from factory managers suggested that the earlier declines were out of fear of a trade war while in May they seem to have concluded that the administration threats were for show and not for real and have chosen to ignore the "noise."

The President's decision to extend steel and aluminum tariffs to the EU, Canada, and Mexico elicited immediate counter-threats of extensive tariffs on U.S. goods we export to those areas. Organizations as diverse as the U.S. Chamber of Commerce and the International Monetary Fund warned that if the tariffs remained in place it could slow the GDP by 1.1% over the next year and ultimately be a factor in creating the next recession. Markets initially reacted as if that was likely to come to pass but recovered with the announcement by the Commerce Secretary that we were still open to discussions. At the end of the week, the anecdotal evidence suggested that traders and institutional investors had concluded the U.S. imposed tariffs were merely a negotiating ploy and would soon be rescinded. The EU announced that if the tariffs were not withdrawn by June 20, their set of retaliatory tariffs would go into effect.

Once again, the most sweeping and largest economic experiment since the 1930s continues to expand. Everything that is generally accepted economic science indicates that a large-scale tax cut followed by large-scale imposition of taxes on imported goods should provide an immediate boost but distort the economy and lead to instability and decline about 24 months after the fact. For his own reasons, the President has chosen to test those theories. Time will tell which approach is better.

Until next week, we remain your faithful servants,

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

Jacob A. McClure, CIMA®