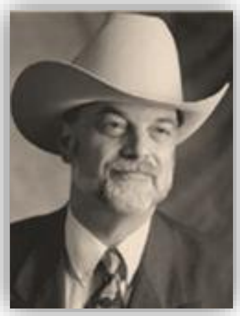

THE PERSONAL WEALTH COACH®

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TPWC Market and Economic Update

The Markets

Our dearly beloved S&P 500 Stock Index finished at 2779.03 up a very respectable 1.62% for the week. That raises the gain for this year so far to 3.94% and a far more impressive 14.28% for 52 weeks (one year). Two factors converged on Friday to provide the positive number. First, a general consensus arose that the trade war rhetoric was just that and no more. The "street" has it that the President will pull back from the brink and a destructive economic gunfight will not start between the U.S. and the rest of the world. The other positive was a sudden realization that oil was in shorter supply than had been previously thought and the price was likely to rise. That equates to increased potential earnings across the energy sector and triggered higher stock prices.

Speaking of oil, the American benchmark, West Texas Intermediate (WTI) hardly moved at all for the week, but mid-week it was headed down, dropping to about $64 per barrel before rallying at the end of the week to $65.56. In a departure from recent history, the other oil benchmark, Brent North Sea Crude, rose to $76.34, creating an unusually large $11 spread between the two prices, and a good boost to the stock market. Brent is now up over 18% for three months.

The benchmark 10-Year Treasury note closed at 2.949%, barely changed from last week, still indicating some worry about economic growth over the next decade. Gold finished the week at $1,303.50, again fundamentally unmoved for the week, but still down about 2.5% from three months ago.

The Economy

The week of June 8, 2018, produced some interesting and apparently contradictory news releases. The Federal Reserve announced that as of the end of the first quarter, household wealth in the U.S. rose to a record level of over $100 *trillion* with corporations holding another $2.66 trillion on their balance sheets. At the same time, the federal debt held by the public was announced as having jumped 15.3% in the quarter as the spending increases and tax cuts took effect.

That good news about household net worth was released just two days after the Social Security Administration (SSA) warned that Social Security payments will exceed income this year, causing it to begin to liquidate the fund of special Treasury Securities it has been accumulating since the 1930s. In the interim years, Social Security has been funding part of the rest of the budget as it took in more money each year than it was paying out. That this reversal has arrived is no surprise, but that it did so three years earlier than expected is. The SSA also warned that the depletion of the trust fund will accelerate unless Congress acts and will be out of money in about 16 years (2034), a year earlier than was previously thought. At that point, presuming Congress does not amend the law, Social Security recipients would receive a 25% cut in income. Consider too that the 2034 estimate assumes that we have no recessions between now and then; an assumption we consider to be unlikely.

In short, we Americans are collectively wealthier than we have been at any point in history, even when adjusted for inflation, but our retirement fund, upon which many Americans depend, just started down the hill to insolvency. From there, the news gets even more interesting. The SSA added the warning that the Medicare Hospital Insurance Fund will run dry in 2026, eight years from now! The problem is that there were only 2.8 workers paying into those funds for each recipient, down from 3.3 as recently as 2007. That date, too, was a year earlier than previous estimates.

In the report, the SSA noted that the plan to end the program offering young, undocumented workers relief from deportation combined with restrictions on legal immigration was an important factor in causing the funds to run dry earlier than previous projections. Without a significant increase in the number of workers or worker productivity, which has been growing very slowly, the U.S. economy is limed to about a 1.8% to 2% long-term growth rate. That is simply not fast enough growth to keep the funds solvent. The day of reckoning is coming but we Americans tend to wait for a crisis before we move.

Until next week, we remain your faithful servants,

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

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