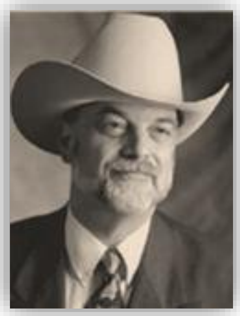

THE PERSONAL WEALTH COACH®

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

June 22, 2018

TPWC Market and Economic Update

The Markets

The S&P 500 Stock Index ended the week down 0.89% to close at 2754.88 and is now 4.10% lower than it was in late January. It hung on to a 3.04% gain for the year and is still up 12.98% from June of 2017. The Dow Jones Industrial Average, loaded as it is with multinational companies, fell an impressive 2.03% for the week. The losses in the US market were dwarfed by the Shanghai Composite Index, declining 6% this week taking it down nearly 20% from its high at the end of January.

The US Treasury 10-year note yield slid to 2.89%, well down from the 3.11% yield of mid-May while West Texas Intermediate Oil rose 7.93% to $69.28 per barrel. Gold prices declined 0.85% to close the week at $1,270.10, putting it down 6.36% for the trailing three months. Notably, the price of U.S. soybeans has dropped over 13% in the last month to the lowest point in two years as the growing trade war potentially leaves farmers with no place to sell their crops.

The Economy

The market's decline this week was reportedly a result of the same old reason, fear of trade war. A series of previously threatened tariffs took effect this week and more threats were on the table for a basket of products worth $200 billion annually, far larger than what we have seen previously. The tariffs and threatened tariffs will almost certainly slow the economy in 2019 and could trigger or worsen the next recession. We are also watching the yield curve. With the 10-year note yield declining and the Federal Reserve planning to increase rates four times this year and three times in 2019, an "inverted curve" becomes more and more likely. Inverted yield curves have historically led to recessions 18 months later.

The tariff threats and actualities overshadowed some good news. The Federal Reserve announced the results of the annual "stress tests" of large U.S. economic institutions and all appear to have passed, most with flying colors! That means that in the event of a severe economic shock such as we witnessed in 2008, instead of seeing a series of major financial institutions either fail or being bailed out by the government, they could stand alone and continue to do business and make loans.

In more good news, the Conference Board's U.S. Leading Economic Index increased 0.2% in May. For the trailing six-month period, the Index rose at a 6.1% annualized rate. The only negatives were building permits and manufacturing working hours, but while they were more than overwhelmed by the new orders index and consumer expectations, the declines were notable. Those declines were, at least in part, credited to hitting capacity utilization limits as shipments were delayed by truck and driver shortages.

The trend in the LEI suggests that the Index should remain positive through the end of 2018 but should not further accelerate. In short, more and more indicators suggest that we are approaching the top of a cyclical economic growth period. That fits well with the consensus view from recent surveys of economists that sometime in 2019 will mark the top of the cycle with a recession likely in 2020 or 2021.

A new forecast for long-term U.S. economic growth was issued by the International Monetary Fund (IMF) this week. The IMF report suggests that the sustainable long-term U.S. GDP growth will average 1.4%. That is lower than the consensus of U.S. economists at 1.8%, and less than half the Trump administrations official forecast of 3%. That contrasts sharply with the Atlanta Federal Reserve's forecast for the second quarter of 2018 at an annualized rate of 4.7% and the consensus economists' forecast for the quarter of 3.5%. 2018 GDP growth may well come in at 3% or higher but if we have a sustainable rate of only 1.4% to 1.8% we will have a price to pay down the road.

In the midst of this, it is important to note that the forecast recession is likely to be *cyclical* rather than *secular* in nature. Cyclical recessions are normal periodic events that come from an overheated economy and are usually followed relatively quickly by a solid recovery. The recession we had in 2008-2009 was *secular* in nature and as such was both more severe and longer lasting.

In a final note for the week, the Supreme Court allowed states to begin to collect local and state sales tax on all internet sales based on the point of purchase rather than the point of sale. Bid farewell to sales tax avoidance by shopping online out of state.

Until next week, we remain your faithful servants,

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

Jacob A. McClure, CIMA®