THE PERSONAL WEALTH COACH®

An SEC Registered Investment Adviser

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TPWC Market and Economic Update

The Markets

The S&P 500 Stock Index (SPX) turned in an impressive gain of 1.52% for the week at 2759.82 and is now up 3.22% so far in 2018 and 13.80% from a year ago. The prime driver in the gain appeared to be the jobs report from the Labor Department as we have now completed a record 93 consecutive months of employment gains in the U.S. Despite the overall gains, industrial stocks sagged on the escalation of the trade war. Several larger manufacturing companies reported delays in their supply-chains due to transportation and infrastructure limitations and tariff-related issues.

The ten-year U.S. Treasury yield continued its slide to finish the week at 2.82%, down from 3.11% just over a month ago as the bond market frets about slowing growth in the years ahead. U.S. Oil declined just under half a percent to $73.90, but remains up over 20% in the last 90 days and 53% from a year ago. That price increase has filtered through to the gas pump and there may be more to come as U.S. sanctions on Iranian oil come into play. Gold and the dollar largely held steady with gold at $1,256 down about 6.5% since the first quarter.

The Economy

The trade war has begun as the U.S. and China imposed tariffs on $34 billion of each other's exports for a combined tariff of $68 billion on each other's exports. $16 billion more (times two) is scheduled to go into effect in August. All that is on top of the steel and aluminum tariffs already in place. President Trump has promised another $200 billion, likely in early fall with the Chinese already set to match that. Don't look for an immediate effect on either economy. If the war continues to escalate it stands to reduce U.S. GDP by about half a percent in 2019 but with the full impact not hitting until 2020. One of our strengths is that the majority of our economy is in consumer purchases rather than exports. Trade wars may accelerate inflation as prices rise, but are not as dangerous to the U.S. economy as they are to export-focused countries. The issues for us are the retaliatory actions that other parties in this war may take. We in the U.S. are import-dependent, and a disruption in our supply of those imports could hurt.

Meanwhile, the U.S. economy, as we have predicted, is accelerating with a full head of steam. Even though the Labor Department reported unemployment rising to 4% of the labor force, the net number of new hires rose to 213,000 and the number of unemployed stood at 6.6 million compared with 7 million this time last year. The rise in unemployment even as hiring was also high was because the civilian workforce grew by 601,000 as new graduates and workforce returnees entered the job market.

Wages, again, were up 2.7% from a year ago, suggesting that competition for workers has not yet heated up. We currently have a workforce participation rate of 62.9%, meaning that if we tallied everyone between 15 and 64 who was not a full-time student, in an institution, or otherwise unable to be employed, about 63% have paying jobs or are looking for work. That rate is considerably lower than the 67% rate we had in the late 1990s and the 66% rate of

2008. One of the reasons we have trouble getting the US GDP to stay at high numbers is that we have had about a 4% participation rate decline over the last decade.

A lot of thought and study by economists has gone into that issue recently. One of the big factors is the number of people who have retired early. Another part of the dropout rate has been because skills have changed and older workers have given up. Yet another identified reason, and perhaps the largest, is the opioid epidemic in which people with chronic pain became addicted to opioid medications and then turned to black-market drugs as an increasing number of jobs require drug-testing. A related reason is that we have the largest percentage of convicted felons of any nation in the world. An arrest and conviction record makes it more than a little difficult to find employment. Clearly, though, people not previously considered to be in the workforce are returning, as evidenced by the 601,000 who entered last month.

The transportation, skilled workers, and general infrastructure limitation issues continue to grow, suggesting that the current high growth rate in the U.S. economy may not be sustainable over the long-run. The Federal Reserve minutes were released and show that the Fed too is concerned about the potential for a recession in or around 2020 as the economy grows faster than can be sustained. The debate appeared to be on how fast to raise rates and sell bonds in order to slow the growth rate now without causing a crash while at the same time leaving themselves room to maneuver to cushion the fall when the next recession does finally appear.

Until next week, we remain your faithful servants,

Jeffrey W. McClure CFP®
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