
# THE PERSONAL WEALTH COACH®

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August 3, 2018

## TPWC Market and Economic Update

### The Markets

The S&P 500 Stock Index (SPX) rose 0.75% for the week, turning in its fifth straight weekly gain at 2840.35. It is now up a respectable 6.24% in 2018 and well over 14% from a year ago. Very notably, Apple (AAPL) became the first stock issue in American history to top one trillion dollars in market value. S&P 500 companies' second-quarter earnings are on track to rise 24% but that gain has only translated into about a 3.6% gain in the Index since quarterly reporting started. The fear of repercussions from the trade war combined with a strong suspicion that much of the earnings surge was a one-time result of the tax-cut are holding down stock prices. Still, the SPX and other indices are only about 2% from regaining their record highs set this February.

The 10-year U.S. Treasury benchmark note ended the week yielding 2.947% after cresting just above 3% Wednesday and Thursday. Yields on the T-note, like the stock market, are stuck between a rise because of the economy's strength and a fall on trade war fears. Over the last month, the trend has been upward, suggesting that the bond market has more faith in U.S. economic strength than fear of the potential damage from a trade war. West Texas Intermediate (WTI) crude oil slipped downward 0.52% to $68.68 although it remains up 16.5% in 2018 and almost 37% for one year. Gold, which traded at about $1,360 per ounce in January, ended the week at $1,221.90. The WSJ dollar index rose half a percent and is up about 3% over the last three months. Very notably, the dollar is up about 6.4% against the Chinese Yuan-Renminbi, largely negating the tariffs recently imposed on Chinese exports to the U.S.

### The Economy

The week's headline economic news was that U.S. employers added seasonally adjusted 157,000 jobs and the unemployment rate dropped to 3.9%. Pre-release estimates had expectations set that the number would be over 200,000, so the hiring rate was a bit of a disappointment. We will have to wait and see if this was more than a blip caused by the closing of Toys-R-Us.

Despite the tariffs in place, U.S. exports fell to $213.8 billion and imports rose in June to $260 billion. The U.S. economy is on a roll and we simply are incapable of producing as much as we have the cash flow and interest in buying. The U.S. is the wealthiest nation in the world and currently has the healthiest economy. As a result, we have the wherewithal to purchase a lot of what we want from other countries where things are less expensive than they would be if we made them here.

In an ironic result, the tax-cuts passed late last year are pushing up the import volume almost dollar for dollar as we are forced to borrow more money from overseas, which counts as an import, and at the same time provided businesses and consumers more money to spend than domestic suppliers have things and services to sell. That extra money then forces the Federal Reserve to continue raising short-term rates to head off rising inflation. Rising rates cause foreign savers to buy dollars to earn the higher interest on short-term deposits. Those purchases cause the dollar to appreciate against other currencies, including the Yuan, making U.S. exports more expensive and imports less expensive.

In short, the tax cuts have increased the trade deficit and are likely to do so into the future while at the same time negating the effects of import tariffs as the dollar rises in value. The market's concern is that retaliatory tariffs combined with a high dollar could put us out of the export business and at the same time make goods here more expensive. That would eventually hurt corporate earnings, force interest rates up, and probably generate a recession.

Speaking of borrowing, the Treasury Department announced it was increasing its issuance of new debt (borrowing) by $30 billion over the next three months. It also officially announced to Congress that it would need to borrow over $1 trillion dollars in 2019 as the tax cuts reduced revenue while laws passed earlier this year measurably increased spending. The increased borrowing and spending by the government tend to increase interest rates, raise the value of the dollar, and increase the trade deficit. The expressed intent by the White House is that the increased economic activity will create more taxes to offset the tax cuts. This is certainly a bold experiment in macroeconomics and we will find it fascinating to watch it play out.

Until next week, we remain your faithful servants,

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