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

August 17, 2018

TPWC Market and Economic Update

The Markets

The S&P 500 Stock Index (SPX) moved upward 0.59% for the week to close at 2850.13 as news broke that the U.S. and China had scheduled trade talks both sides believed were likely to end the current trade war by sometime in November. The other piece of not-so-bad news was that analysts have concluded that a collapse of Turkey's currency would have limited effects on U.S. corporate earnings. Year-to-date, the SPX is up 6.6% and up a truly impressive 17.5% from last August.

The benchmark 10-year U.S. Treasury note yield continued its recent slow downward slippage with the end-of-week yield down to 2.863%, down from about 3.113% three months ago. That quarter of a percent decline in yield amounts to a relative percentage decline of about 8% in three months. Declining longer-term rates suggest the bond market is concerned about longer-term growth. More on that below.

Crude oil too continued its decline in price, ending at $65.91, down 2.75% for the week, although that is still about 34% higher than it was a year ago. Notably, copper, considered by many to be the "canary in the coal mine," entered bear market territory, down over 20% since June. Gold got on with its declining slide to close down 2.31% at $1,191 and is now down more than 10% for the year. The dollar, on the other hand, moved little for the week, down 0.39%, but has risen 4.43% year-to-date against a basket of world currencies in the WSJ Dollar Index. In a much-watched relationship, the dollar remains up about 8% against the Chinese Yuan since the imposition of 10% tariffs on Chinese imports. That effectively lowers the price of Chinese goods about 10% for U.S. buyers, negating the tariffs.

The Economy

The headline grabber this week was the ongoing slide in the Turkish Lira. The published fear was that we could see something like what happened 20 years ago when the Thai baht collapsed as the Thai government and banks were forced into near-bankruptcy when the currency fell to the point that they could no longer service dollar-based debts. Unexpectedly, the currency collapse created a like decline in the currencies of several neighboring countries and ultimately collapsed the Russian Ruble as lenders called in their loans and investors sold the currencies. Like the Greek financial crisis, the degree that a currency collapse in Turkey might impact European banks is largely unknown. The linkage to other developing nation currencies and economies is also a murky area. Only time will tell if they Lira stabilizes or whether its collapse will ripple out into other nations.

In the currency crisis of 1997-1998, the U.S. stepped in on several levels to ease the panic and stabilize the currency exchange system. One of the risks we face today is that the administration appears to believe that the appropriate thing to do when a foreign currency drops in a dispute is to double down on the economic pressure. That difference in approach is a bit scary to institutional investors.

Less spectacular, but perhaps more worrying to economists is that the difference between the yield on the 10-year U.S. Treasury note and its 2-year cousin dropped below 0.25%. Historically, a "flattening of the yield curve" to that point has usually been followed by a recession within about three years. The question is whether the flattening continues. With the Federal Reserve very likely to continue to raise short-term rates and the slow decline in yield on the 10-year T-note a trend is underway that could easily result in an "inverted" yield curve, in which short-term rates are higher than long-term rates. Inverted yield curves are reliable predictors of recessions about 12-18 months later.

Meanwhile, here in our economy, the unemployment rate for those without a high school education fell to a record low in July and Wal-Mart posted record sales and earnings. Minority groups that traditionally had higher unemployment rates also saw record low numbers. At the same time, housing sales, and starts, continued to slip, suggesting that all is not well in this economic boom. Still, the Conference Board's Leading Economic Index increased 0.6% in July, suggesting that the U.S. economy will continue to expand at a solid pace for the remainder of the year. In a bit of a sour note, the lagging index declined 0.3%. Part of that negative note was generated by a decline in consumer sentiment as reported by the University of Michigan Index. The survey suggested that consumers are seeing rising prices for food, fuel, and real estate but no increases in their wages to match.

Across the board, the big picture remains the same; a presently booming economy with cracks beginning to show for the longer-term outlook.

Until next week, we remain your faithful servants,

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

Jacob A. McClure, CIMA®