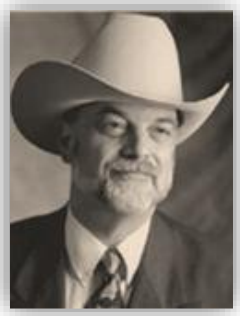

THE PERSONAL WEALTH COACH®

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TPWC Market and Economic Update

The Markets

The S&P 500 Stock Index (SPX) continued its celebration of higher earnings, closing out the week above the 2900 line at 2901.52. It was higher on Thursday but turned in a gain of 0.93% for the week, raising the year-to-date gain to 8.52% and the one-year gain at 17.16%. The benchmark 10-year U.S. Treasury bobbed around during the week, first up on news of the Mexico NAFTA announcement, then down as complications began to arise. It wound up finishing the week exactly where it started, yielding 2.858%, about 7/10 of one percent higher than a year ago.

West Texas Crude rose a bit over 2% for the week, closing at $69.90; up about 40% from a year ago. Gold was down about half a percent for the week at $1,206.80, continuing its slide. It is now down over 9% this year and about 11% for 52 weeks. The WSJ Dollar Index, in the reverse of gold, rose 0.34% for the week and is up 4.23% this year. It is up 5.3% against the Chinese Yuan so far this year.

The Economy

The biggest news this week was that Mexico and the U.S. have agreed on an update to the North American Free Trade Agreement (NAFTA) but no agreement has been reached with Canada. President Trump had set a Friday deadline for Canada to meet U.S. demands or be kicked out of NAFTA. Enough Republicans and almost all Democrats in the Senate have pledged to oppose a Mexico-only agreement that it is unlikely to pass the Senate unless Canada is included. The summary released by the White House on the Mexico-U.S. agreement suggests there will be little substantive change between the old NAFTA and the new version. North American content in tariff-free automobile imports was raised from 62.5% to 75% and more content was required to be made in North America by workers paid at least $16 per hour but little else was announced. Missing was any provision for Mexico to pay for a border wall or other large-scale changes. Oddly, the announced changes seemed to be a bit better for Mexico and labor unions and will likely raise consumer prices.

The Commerce Department announced that overall corporate profits, including non-publicly traded companies, rose 16.1% in the quarter that ended in June from last year, but tax receipts declined 33% because of the tax cuts. That was the highest quarterly growth in overall corporate earnings since 2012. The hoped-for economic growth has indeed shown up, but the decline in tax revenue is substantially larger than was forecast when the tax cuts were passed. The question remains open whether increased growth will generate enough government revenue to offset the cuts. Economists continue to forecast overwhelming deficits while the administration is optimistic.

Commerce also raised its estimate of second-quarter annualized GDP growth from 4.1% to 4.2%. Before you get too excited, back in 2014 we had another growth spurt higher than this one, but that growth was not fueled by a tax cut. It was also followed a bit over a year later by a substantial economic growth slow-down in 2015. Moody's High-Frequency tracking estimate of third-quarter annualized GDP growth is running at 3.7% with declining growth rates in following quarters. The experiment continues and a year or two from now we will know the results.

Still, there is no questioning that this economy is running at full steam. For the month of July, wages rose at an annualized rate of 3.6% and household spending rose at 4.8%. Consumer confidence rose as did inflation as the Personal Consumption Expenditures (PCE) price index was up 2.3% from last July, the fastest growth since 2012. That inflation and spending numbers pretty much lock in two more rate increases from the Federal Reserve this year putting the likely end-of-year short-term interest rate at about 2.5%. This is where the Federal Reserve Board once again will either succeed or fail. If they raise rates too fast or too far, they get the blame if we slump into recession but if they move too slowly or stop raising rates too soon, inflation can get out of hand with unpleasant results.

Until next week, we remain your faithful servants,

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

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