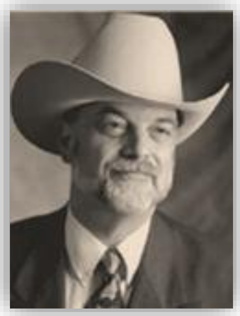

THE PERSONAL WEALTH COACH®

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TPWC Market and Economic Update

The Markets

It was the best of times; it was the worst of times. The S&P 500 Stock Index (SPX), after lingering within striking distance of its record highs for months, fell 4.10% in the week ending the 12th, closing the week at 2767.13. That close puts the SPX down 5.91% from its record high of 2940.01, set back in August. The good news is that it moved upward 1.42% on Friday, suggesting that this is merely a minor correction in a major bull market. After all, it is October, and one has to look long and hard to find an October without at least a minor correction. The SPX remains up 3.50% for the year and still is hanging on to an 8.38% gain from this time last year. In an ironic backward sort of logic that is normal for the stock market, the downturn was primarily driven by too much good news. The reported fear factor was that the economy was doing so well that the Federal Reserve Board ("the Fed") would accelerate its interest rate increases and set off a near-term recession. This minor selloff marked the third consecutive week of market decline with the worst week at the end but followed by a 1.4% rise on Friday. The pattern is classic for a minor dip in a rising market.

To put this slump in perspective, it is the worst market decline since… February! The key to whether the decline continues or reverses into an end-of-year surge will largely depend on corporate earnings. The indicators we received on Friday suggest the bull market has much further to run. JPMorgan Chase, Citigroup, and Wells Fargo all reported excellent earnings growth ranging from 7% to 24% for the quarter.

As might well be expected in such a pessimistic week, the yield on the benchmark 10-year U.S. Treasury Note declined 15.8 basis points (hundredths of a percent) to 3.162%, still remaining well above the 3% mark it crossed in mid-September. Echoing the fear of a possible future economic slowdown, the U.S. crude oil price per barrel declined 3.74% to $71.51 but remained up 37% since this time last year. Gold jumped 1.23% on the fear of inflation to close at $1,221.60 per ounce but remained down 8.19% for one year.

The Economy

Mortgage rates rose above 5%. While September's home sales rates are not due until next week, home construction stock prices were down 22.85% this week and have declined almost 43% in the last three months. New home construction is not an infallible forecaster but the companies that build homes are often the first to show declines well in advance of a downturn. That sag in longer-term home construction rates is echoed in the automobile market as new car makers are having to offer greater incentives to keep selling while used car prices fell 3% in September, the largest drop in 15 years.

Inflation for September increased a measly 0.1% and was up only 2.3% from last September. That report, released on Thursday, suggests that inflation is not accelerating and that the Fed may stick to another quarter-point increase in rates in December followed by two more rises in the first half of 2019 taking rates to nearly 3%. The collective wisdom of stock investors seems to be comfortable with Fed rates a bit under that number but are frightened by anything higher.

Hurricanes have been in the headlines the past few weeks and the total price tag on them may run well above $30 billion. Output and employment will take a short-term hit nationally but the increase in production required to replace the damaged buildings and equipment will probably about balance the losses. It says a lot about our economy that two major hurricanes hitting so close together hardly rate a blip in our growth rate.

At the Federal government level, there's good news and bad news. The good news is that the number of people receiving federal disability benefits is falling at a 2% annual rate. The bad news is that we are now paying $1.5 billion per day in interest on the Federal debt. Given the current tax law and the recently passed spending bills, interest on the debt will exceed spending on Medicaid next year and exceed defense spending in about five years.

Until next week, we remain your faithful servants,

Jeffrey W. McClure CFP®
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