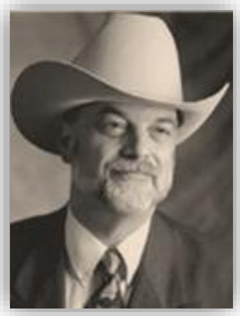

THE PERSONAL WEALTH COACH®

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TPWC Market and Economic Update

The Markets

Our dear old Standard & Poor's 500 Stock Index (SPX) turned in a very respectable 2.42% rise for the week ending 11/02 to close at 2723.06. The recovery in this correction started on Oct. 30 as the forward price to earnings (P/E) ratio dropped below 15 and at least some investors realized that stocks had gone from fairly priced to cheap. An interesting and quite sensible shift occurred at the same time as investors began to favor value stocks over the more exciting, but more volatile, growth stocks. That kind of shift historically does not mark the end of a bull market but rather that it has reached a degree of maturity that bodes well for the next six months to a year. The Index returned to positive territory, up 1.85% year-to-date, and has risen 5.23% since this time last year.

As we have written before, individual stock valuations have historically tended to be driven by either anticipated future growth in earnings (growth stocks) or the underlying value of a company's assets (value stocks). Over the long-term, value has done better than growth, but particularly in the late stages of a bull market, growth stocks tend to run off and leave reality behind. We may not see record levels in the SPX again any time soon, but the underlying market looks healthier to us than it did before the correction began.

Despite the looming imposition of an oil embargo on Iran scheduled to take effect on Nov. 4, U.S. oil prices dropped nearly 7% to close at $62.91, suggesting the markets see slower demand growth ahead. It remains up over 17% from last November, so oil is not cheap. The 10-yr. U.S. Treasury note was virtually unchanged at 3.217%, up 8/10 of a percent so far this year. Gold, too, was largely unchanged at $1,233.30, still down over 7% for the year. Like Treasuries, gold, and oil, the dollar barely rose against world currencies but was up about 6% for the year against the Chinese Yuan, continuing to largely offset the 10% U.S. tariff on many Chinese goods.

The Economy

The Bureau of Labor Statistics announced that U.S. employers added about 250,000 jobs and the unemployment rate remained at 3.7% while wage growth rose 3.1% from this time last year. Moody's is predicting unemployment to fall to about 3.2% in 2019 before reversing. The indicators suggested too that wage growth was accelerating as recent gains equated to 3.4% on an annualized basis. The accelerating wage growth is consistent with the observation that, on average, the U.S. produces about 100,000 new workers each month while creating well over twice that number of new jobs. Since hiring is running ahead of new worker creation, higher wages are needed to bring older workers back into the market. Among people ages 25 to 54, when decisions about school or retirement are less likely to influence whether people are in the workforce, 82.3% are participating and 79.7% have jobs. Using that as the basis for comparison, the maximum level of employment we have seen since measurement began was 81.7% in the year 2000. The next high spot was an even 80% in 2007, suggesting we don't have a lot more reserve in the labor pool and wages may be headed up.

In another bit of good news, worker productivity rose at an annualized rate of about 2.2% in the last couple of months, suggesting that many newly hired workers are becoming more productive. Year over year productivity is only up about 1.3%, a low number that, with the wage increases, could create higher inflation.

Those are the numbers that make it likely that the Federal Reserve is likely to continue to raise rates at a quarter percent per quarter at least through mid-2019. They are also the most visible evidence that economic growth will likely begin to slow in 2019 and there is a danger of recession by 2020. More employed persons and higher wages drive greater consumption which, with a lag, drives higher production. Eventually, the consumption growth tops out but production continues, leading to excesses that force layoffs. The layoffs further depress consumption and so on. Thus, is the classic supply/demand economic cycle perpetuated. Historically, goosing the economy with a tax cut when it is already in a boom tends to make the next recession come sooner and be worse when it arrives. The current tax and spending bills passed for this year are challenging that historic record. The great macroeconomic fiscal experiment continues. Only time will tell if it is indeed "different this time."

Until next week, we remain your faithful servants,

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

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