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

December 7, 2018

TPWC Market and Economic Update

The Markets

The stock market, as defined by the Standard and Poor's 500 Stock Index (SPX) fell 4.6% this week closing at 2633.08. that puts it down 1.52% year-to-date and once more officially in a "correction" as it is down almost 11% from its late September high. Following the G-20 conference, during which President Trump and Chairman Xi seemed to reach a temporary truce in the escalating U.S.-China trade war, the market rallied, but then a series of tweets by the President suggested the truce was not real. That was followed by news that a senior Chinese executive was arrested at the Toronto airport for extradition to face charges in the U.S. Then the U.S. announced pending criminal charges against Chinese government employees accused of hacking. Taken together, the incidents have caused many investors to conclude that a full-fledged diplomatic and trade war is breaking out between the world's two largest economies. Such a "cold" war could be quite damaging for the world and the U.S. economic outlook, hurting corporate earnings, and raising the potential for a recession.

The U.S. Treasury benchmark 10-year note yield promptly declined to 2.86%, well below the 3.24% yield it hit early in December and only 2/100 of a percent higher than the 2-year note. The effectively "flat" yield curve generated its own set of worries as it is perilously close to an inversion. An inverted yield curve commonly suggests a recession is likely within 12-18 months. In an odd bit of good news, the price of West Texas Intermediate (WTI) crude oil rose 3.02% for the week to $52.28 but remained down over 22% for the trailing three months. Lower oil prices, like lower interest rates, can be signals that the markets are anticipating a slower economy in the next year or so. The dollar fell very slightly for the week but remains up about 5% for the year against a basket of world currencies.

The Economy

The big economic news on Friday was that U.S. unemployment held at 3.7%, the lowest number since 1969, but employers hired 155,000 new workers, down from a longer term moving average nearer 200,000. Year over year wage growth stood at 3.1%, the highest since 2009. Consumer spending held steady at near record levels but that drove the U.S. trade deficit in October to its highest level in ten years at $55.5 billion. The record trade deficit was the result of three factors. First, the tax-cut this year left Americans with more money to spend than we have the capability of absorbing in the U.S. economy. Second, the tariffs have ironically raised the price of American-made goods more than imports. Third, the tariffs and counter-tariffs have cut deeply into American exports.

Private construction spending, which many consider an advance indicator of future economic growth, fell 0.3% in October, as real residential investment declined by 1.6%, The Commerce Department also revised August and September's residential investment down to negative numbers, putting the home investment figures down for the trailing three months.

In another area watched as a long-term indicator, United States Factory orders, fell 2.1% in October after rising in August and September, with durable goods orders falling 4.3%. As we have suggested before, both commercial and

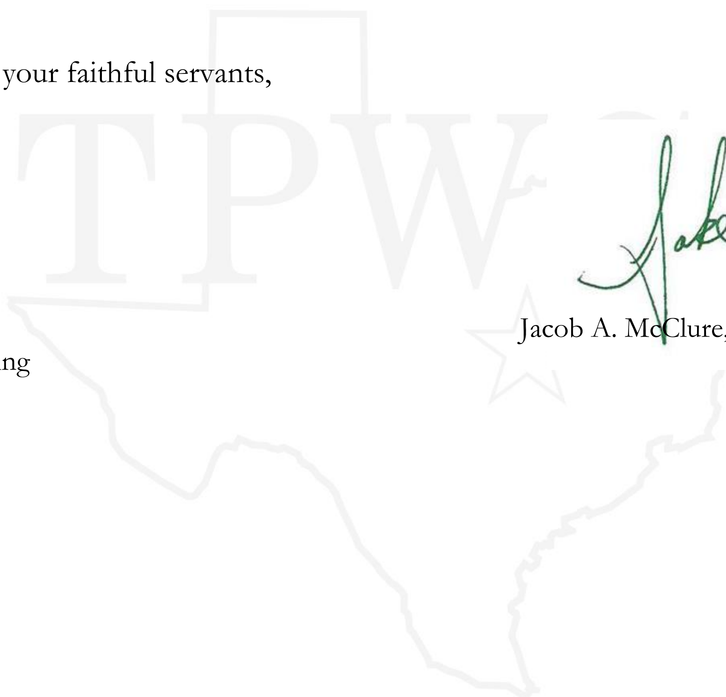
Information contained herein has been obtained from sources believed to be reliable but is not warranted as to accuracy or completeness. Past performance is no guarantee of future returns. For tax or legal issues consult with a qualified tax advisor or attorney. Investments when sold may be at a higher or lower price than when purchased. Refer to your custodial account statements for securities holdings and values.

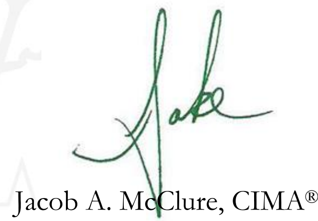
personal buyers tend to increase purchases of long-life durable goods when they expect the economy to improve in the future and start to cut back on such purchases when they are anticipating a downturn.

Rumors abounded during the week that the Federal Reserve might slow their rate increases next year but it remained clear that another rate hike was coming this month. Even the optimists seemed to believe that we would see at least two quarter point increases in 2019. That would raise the overnight interest rate to around to at least 3%, a higher short-term rate than the current yield on the 10-year Treasury note. Such a condition would indeed be the dreaded yield-curve inversion, feared by investors as a harbinger of a future recession. If the inversion were to occur in mid-2019, the stage would be well set for the 2020 recession that many economists have been forecasting.

The cumulative effect of the data continues to suggest that the economy, both domestic and global, is coasting on momentum rather than accelerating with some leading indicators beginning to show weakness. At the same time, the concurrent and lagging indicators continue to proclaim that things are doing quite well in the short-term with the economy running at full or even more than full speed.

Until next week, we remain your faithful servants,





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

Jacob A. McClure, CIMA®

Information contained herein has been obtained from sources believed to be reliable but is not warranted as to accuracy or completeness. Past performance is no guarantee of future returns. For tax or legal issues consult with a qualified tax advisor or attorney. Investments when sold may be at a higher or lower price than when purchased. Refer to your custodial account statements for securities holdings and values.