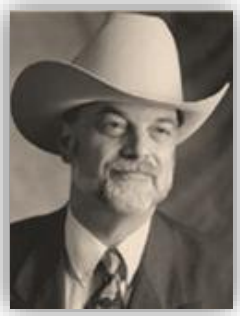

THE PERSONAL WEALTH COACH®

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TPWC Market and Economic Update

The Markets

Our dear old Standard and Poor's 500 Stock Index (SPX) turned in a respectable week, rising 1.57% to 2706.53. More impressive was the 7.87% rise for the month of January, the best first month of the year since 1987, and the biggest monthly rise since 2015. In December the SPX fell 9.18%, and for the 4th quarter was down 14%, so January's impressive rise doesn't get us back to even but is still welcome. The Index and the broad market are still down over 2% from this time last year and down 7.75% from their peak values last September.

The drivers behind this slow but impressive recovery have been a gradual backing off by the Federal Reserve on future interest rate guidance and a steady stream of optimism from the President on his expectations for ending the trade war with China. The headwinds that have so far prevented a full recovery are the same President's earlier threats to wage the trade war and a growing fear that Europe and Asia may not be doing well economically.

Amid all the good news from the stock market, little attention was paid to the benchmark 10-year U.S Treasury note. It closed out the week at 2.68%, having risen from 2.63% mid-day Friday, but the 5-year note has sagged. The interest yield curve is now nearly flat out to five years at 2.44%. You may remember that in early November the 10-year note was yielding 3.24% and was predicting large-scale future economic growth. The nearly 1/3 decline in yield since then is a warning that the bond market is not so optimistic for the economy two or three years from now.

West Texas Intermediate Crude Oil put in a good showing for the week, rising 3.38% to $55.35, up nearly 14% for one month but still down 12.5% for three months and down 6.47% from a year ago. Gold rose 1.06% in synch with the stock market to $1,322.60 and is now up over 6% for 90 days but down 3.25% from a year ago. The dollar (WSJ Index) declined 0.15% on Fed's interest rate announcement but remains up 6.32% from a year ago.

The Economy

The headline news was that the U.S. economy has been adding jobs now for 100 consecutive months, the longest such period on record. According to the Labor Department, nonfarm payrolls rose a seasonally adjusted 304,000 in January. Perhaps more importantly, average wages were up 3% from a year ago, marking six-months of wage increases significantly above inflation. The unemployment rate rose to 4% but that appears to be a quirk of the government shutdown. The biggest gains were in education, health, and construction. The construction gains were another anomaly as they were mainly in home improvement, not new construction.

Some major companies, previously in the lead of the bull market, including Apple and Caterpillar, reported declining earnings for the 4th quarter of 2018 while others such as Facebook and Amazon turned in record profits. In another indication of a maturing bull market, smaller companies were where the earnings growth appears to be concentrated for the quarter and for the full 2018 year, while the larger, more familiar companies reported spotty gains. The big picture is that overseas economies are exhibiting slowing growth but that was more than offset by the quarter's rise in U.S. domestic consumer spending. Employers are continuing to report a critical shortage of qualified workers available to be hired as the most significant obstacle to more growth. With 45% of SPX companies reporting, Index earnings are up about 12.5% from a year ago, about half the 25.5% gain the Index has averaged over the past three quarters.

Members of the Federal Reserve Board suggested in speeches that further short-term interest rate increases were likely on hold until mid-summer. Keys to that decision are the uncertainties associated with Brexit and trade policy. A "hard Brexit" in which the United Kingdom exits the European Union with no negotiated agreement would seriously reduce trade with the U.S. because our trade agreements are with the E.U. and not the U.K. As we have written before, there is a consensus among economists that imposing a 25% tariff on Chinese imports could trigger a recession. Coupling tariffs with a hard Brexit could make that recession more severe. With the European Union teetering on the edge of recession, China's growth rate slowing, and the political risks piling up, it makes sense that the Fed would hesitate to hit the brakes on the U. S. economy.

Until next week, we remain steadfastly on duty in our endless search for a better way to manage portfolios and serve our clients.

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