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THE PERSONAL WEALTH COACH®

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TPWC Market and Economic Update

The Markets

The impressive recovery from last year's market swoon that ended on December 31 finally ran out of gas in the week ending March 8. The S&P 500 Stock Index (SPX) declined 2.16% to end the week at 2743.07, taking it down to 1.56% below where it was last March and down 6.4% from last September's high point. The decline over the week was slow and steady, very much aligned with the dripping of not-so-good economic news that when taken together suggests we are on an economic plateau. The direction from here is manifestly unclear.

The benchmark ten-year U.S. Treasury note yield declined 2/100 of one percent for the week to 2.633% but the sag in the yield curve between one and five years became more pronounced, reflecting the bond market's unease about economic growth between one and five years from now. 10-year interest rates are now about 36/100 lower than they were three months ago and almost 23/100 lower than a year ago. Lower interest rates suggest the traders in the bond market are expecting growth to slow in the future.

West Texas Intermediate Oil held steady for the week rising a mere 0.45% despite ongoing production cuts at OPEC as OPEC forecasts warned of an oil glut in a slowing global economy. WTI Oil is now down 2.83% from a year ago but up over 20% this year. Gold dropped below $1,300 for a nearly 5% loss from one year ago.

The Economy

The headline economic news this week was that the U.S. economy only added 20,000 new jobs in the month of February. Notably, we created 311,000 new hires in January and have averaged 185,000 new employees over the past six months. So, what happened? The short answer is, "Nobody really knows." The unemployment rate dropped from the previous 4% to 3.8% but that was probably a result of the end to the government shutdown. Wages rose slightly, 0.4%, putting them up 3.4% from last February but the rises were concentrated in services like health-care where there is a critical shortage of qualified workers.

So, is this a harbinger of doom or a short-term, first-quarter glitch? Frankly, we won't know for a month. If this time next month we get a low reading, then the probabilities are that this economic expansion has peaked. If we get a blow-out high number, then it was a glitch.

There was other economic news overshadowed by the jobs report that may be more significant. The 2018 trade deficit hit a record annual $621 billion as U.S. exports declined and imports rose for the third month in a row. The primary underlying reason appears to be the tariffs. U.S. goods are generally at least partly made from imported materials. With, for example, steel 40% more expensive in the U.S. than elsewhere, U.S. manufactured goods tend to be more expensive. Add to that the rise in the dollar last year, again at least partially attributable to tariffs, and we are being priced out of the global market. Meanwhile the high dollar and overstimulated U.S. economy is producing more buying power than we can handle, so we are forced to buy elsewhere, outside the U.S.

A parallel to the record trade deficit issue is the fact that for the first four months of fiscal 2019 the federal budget deficit rose 77% from the same four months last year. From October through January the Treasury expended $310 billion more than it took in compared with a $176 billion shortfall under the old tax law. Government spending was up 9%. The theory was that increased government spending combined with a large tax-cut would stimulate the economy and generate more tax revenue, but for all of 2018, federal revenue declined 1.5%. It was, as we have written, a grand experiment to see if the "laws" of economics would yield to a large-scale stimulus. For a couple of quarters, it seemed to be working and then we hit the capacity utilization wall as our infrastructure and labor constraints slowed things down.

It will be educational, and for us economists, interesting, to watch this experiment continue. The game is definitely not over, and it is conceivable that we could remain on the peak of the wave for some time to come, but history argues against it. Meanwhile, let's enjoy the good times and look forward to more. We believe a complete resolution of the trade war could still give us a second wind.

Until next week we remain your dedicated professional geeks, reveling in economic statistics and minutia as we strive for a better portfolio result into the future.

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