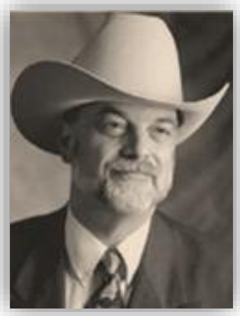

THE PERSONAL WEALTH COACH®

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TPWC Market and Economic Update

The Markets

Despite all the frightening noise in the media about the economy, the S&P 500 Stock Index turned in a 1.20% gain for the week ending the 29th, closing at 2834.40, up over 13% year-to-date and 7.3% from a year ago. If you need something to fret about, the Index is still down 3.3% from its high at the end of last September but that gap has been getting less and less all quarter.

The bond market apparently missed all the good feelings as the yield on the 10-year U.S. Treasury note dropped nearly a fifth of a percent to close at 2.41% on Friday. The yield is down 10% from where it was a year ago and 27% from where it stood as recently as last November. Depending on how one defines it the Treasury yield curve is either slightly inverted or barely not inverted but there is no doubt that the Treasury notes maturing in two to five years are yielding quite a lot less than the one- or three-month versions. This behavior of the stock market rising after the yield curve inverts, by the way, is historically common. An inverted yield curve normally precedes a bear market by at least 12 to 18 months.

West Texas Intermediate crude oil joined the stock market as it moved up 1.95% to $60.13. Gold declined 1.72% to $1,297 as the dollar continued its slow climb, rising half a percent to 90.13 on the WSJ Index. The dollar has risen about 7.62% in the last year; good for U.S. tourists abroad but bad for exporters.

The Economy

Fourth quarter U.S. GDP growth was revised down from the first estimate of an annualized rate of 2.6% to 2.2%. Some of the key changes in the data were that corporate profits fell 0.4% in the quarter as consumer spending also fell 0.6%.

According to a report by the Commerce Department, U.S. inflation in January, as measured by the personal consumption expenditures price index (PCE), fell 0.06% and was only up 1.37% from a year ago. More concerning was that services inflation, an area not greatly influenced by imports, fell 7/10 of a percent. When prices drop it is an indication that demand is slowing and has fallen below earlier levels.

That news about inflation, or rather mild deflation, came on the heels of the Commerce Department announcement that consumer personal expenditures only rose 0.1% in January after falling 0.6% in December. Some economists have suggested that the meager rise in spending could be the result of delayed and less than historical levels of tax refunds. The falloff in spending was not expected after reports that personal disposal income rose a healthy 5% in 2018.

Given that about 70% of U.S. GDP is composed of consumer spending, the first quarter of this year is shaping up to be less than thrilling, somewhere in the 1% range. Add to all of that the decline so far this year in industrial production and there is a case for doom and gloom.

Part of the bad news that may be a factor in the depressed economic activity we are seeing is, oddly enough, coming out of the United Kingdom. Parliament for the third time rejected a plan for disengaging from the European Union in some kind of orderly fashion, but the deadline for international divorce remains April 12, just 14 days away. A "hard-Brexit" as the uncontrolled separation is called, would be devastating for trade with Great Britain and stands to create a small hit on the U.S. economy as well.

Despite all the gloomy news, the stock market put in a rise. The reason appears to be that equity investors raised their heads and realized that corporate profits may have been down in the quarter, but they finished the year up 7.4% from a year ago. Better yet, the companies comprising the S&P 500 Index now appear to have earned about 15.9% more in 2018 than in the previous year. The tea leaves of the yield curve and Commerce Department news releases may be forecasting stormy weather ahead, but for the moment, all is clear sailing and calm seas.

Until next week we remain your vigilant observers and analysts of things economic and investment-related.

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