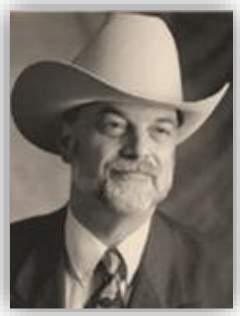

THE PERSONAL WEALTH COACH®

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TPWC Market and Economic Update

The Markets

The oldest and our most favorite U.S. stock market index, the Standard & Poor's 500 Stock Index (SPX) turned in a week of good work, rising 2.06% to close on the fifth at 2892.74. That two percent climb added to the 2019 total to put a year-to-date rise of 15.39% on the books. The SPX is now up just over 11% for one year but still 38 points or about 1.3% below where it was in late September of last year. The catalyst for the rise was widely held to be the improving rumors about a possible end to the U.S. China trade war.

The ten-year U.S. Treasury note yield joined in the party, rising 4.9 basis points to 2.491% after briefly rising above 2.5% mid-week. That rise puts the 10-year yield above the 2.422% yield on the 3-month T-bill, thus ending the brief but scary inverted yield curve. The ominous dip in yields from 2 to 5 years remains in place, suggesting an economic slowdown in the next couple of years is still in the bond market tea-leaves.

West Texas Crude continued its ascending trajectory over the week, closing out on Friday at $63.28, up 5% for the week and 34.5% this year as OPEC continues to throttle back on production. Gold was almost unchanged at $1,295.70 and remains down about 5.5% from a year ago. The dollar rose about 0.2%, still up about 7.5% from a year ago.

The Economy

The U.S. labor market surged back after the shockingly low 33,000 net new hires in February (adjusted from the earlier estimate of 20,000) to a whopping 196,000 new jobs in March. The major gains in March were similar to what we have seen for the past several years with health care, professional, and technical services leading the way. Construction employment edged up, but manufacturing employment fell by 6,000 after averaging a 22,000 per month gain over the past year. Average hourly earning rates were up 3.2% from a year earlier. The short story on employment is that while the moving averages suggest a slowing rate of growth, growth is still there and rolling along at a faster rate than many thought was possible.

Moody's Economics' high-frequency GDP indicator estimates the annualized GDP growth for the first quarter will be between 1.6% and 2.0%, higher than had been forecast previously but lower than any quarter in 2018. The reason for the upgrade was a surge in inventory buildup following the President's threat to close the U.S. Mexican border. It is worth remembering that a year ago, following the tax cuts and a dramatic increase in deficit-funded spending, the U.S. economic growth jumped to a 4% annualized rate but has been slowing each quarter since.

Economists generally agree that the maximum sustainable rate of U.S. GDP growth, given the constraints imposed by our infrastructure and employment base, is about 1.8% per year. Any sustained growth above that number would then be effectively borrowed from future years, or at least that is how the theory goes. The Trump administration and Republicans in Congress have effectively made a bet that economic theory is wrong, and a faster economic growth rate can be sustained by dramatically increased government borrowing and spending. Thus, we are witnessing a grand experiment, testing generally accepted economic theory. The jury is still out as we can see conflicting signals. The employment numbers suggest a rapidly growing economy with good momentum is in place. The record import volume tells us the same story. On the other hand, we are seeing retail sales growth appearing to reverse and decline and the bond market suggesting that borrowing for new purchases and business expansion is declining.

In the final, for the moment, analysis, we continue to believe that an end to the threatened and actual trade war actions could spark a final economic surge in this cycle and that surge might be accompanied by stock indices breaking through to new highs and a decent long-term gain. The reverse side to that coin is that a negative trade shock from the threatened 25% import tariffs or closing of the U.S. Mexican border, or both, could easily trigger a recession sooner than the bond market is predicting. It all bears watching. The longer-term outlook is exceptionally good. Manufacturing employment is dropping not because we are in a manufacturing slump but because manufacturing is transitioning to more automated systems just as will transportation and a host of other areas we can only imagine. In the end that will be good for us collectively but a difficult transition for those in menial, repetitive jobs that can and will be done by computer-controlled machines.

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

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