THE PERSONAL WEALTH COACH®

An SEC Registered Investment Adviser

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April 12, 2019

TPWC Market and Economic Update

The Markets

For the week ending April 12, it initially looked a lot like we were in for a negative return in the stock market, as represented by the S&P 500 Stock Index (SPX), but as markets so often do, the trend reversed with a rise of 0.66% on Friday giving us a total weekly return of 0.51% to close at 2907.41, a mere 20 points below last year's record. That positive close provided a nearly 16% rise so far in 2019 and puts the market up 9.45% from this time last year.

The surge of optimism that enabled a rise in the stock market was reflected in the bond market as well with the 10-year U.S. Treasury note yield rising 16.2 basis points (6.6%) to close out the week at 2.568%. That leaves the 10-year yield down 21 basis points from a year ago and still far below the 3.32% it hit in November but does reflect a move in a healthier direction. The ominous dip in the Treasury yield curve between 2 and 7 years remains in place but has mellowed a bit. West Texas Intermediate crude oil eked out a 0.79% rise to $63.76 holding on to an over 35% gain from last year. Gold was essentially unchanged, down 0.19% to $1,293.50 and remains substantially lower than this time last year, down 6.74%.

The Economy

All those market numbers taken together reflect what is going on in the economy. In the fourth quarter of 2018, we had a first-class recession and bear-market scare based to some degree on the government shutdown, threats of 25% tariffs, and a sudden slowing in consumer spending. As we have progressed through the first quarter and into the second it has become more and more apparent that the scare was premature. Yes, the first quarter of this year looks more and more to be slower than any quarter of 2018 as virtually all the building blocks of our economy are indicating slowing growth but there is a world of difference between a decreasing growth rate and a decreasing economy!

The jump in the stock market and in Treasury yields came as the U.S.'s largest bank, J.P. Morgan, reported a record profit for the first quarter, up 19%. That was followed by an announcement by Wells Fargo that profits were up 14%. Both banks gave primary credit to consumer borrowing, mainly in credit cards. Both also warned though that if interest rates fell this year that their earnings growth could be lower in the future and if consumer spending slowed, so would their profits.

At about the same time as the bank earnings reports, the Labor Department reported that initial jobless claims across the nation fell to the lowest level since 1969 when the labor force was a fraction of the one today. Then, almost immediately following the good-news announcements by the two banks and the DOL, the University of Michigan reported that its April survey on consumer economic sentiment came in with a 3% drop from last month and was down 2% from a year ago. Perhaps more importantly the Index of Consumer Expectations was down 3.4% from last month and 3% from a year ago. Consumers reported that the tax cut-related good feelings were waning and many were of the opinion that their taxes had actually gone up!

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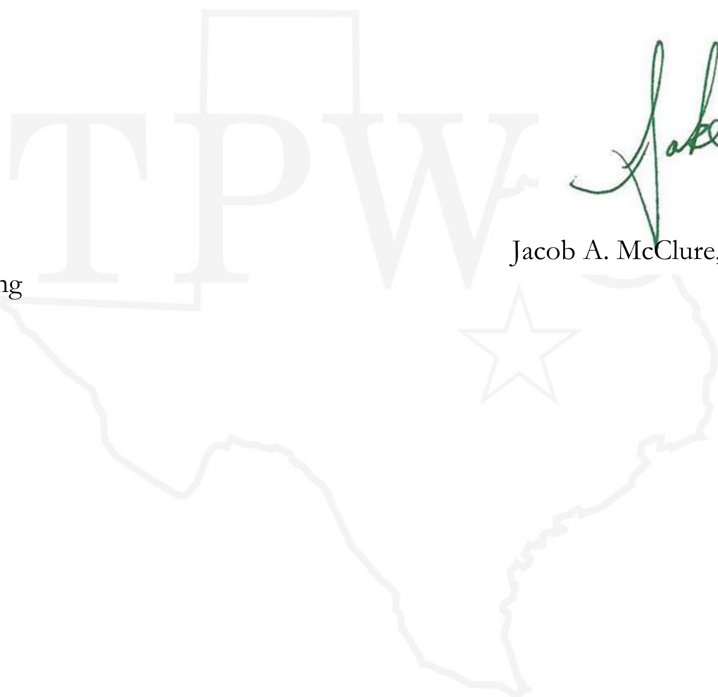
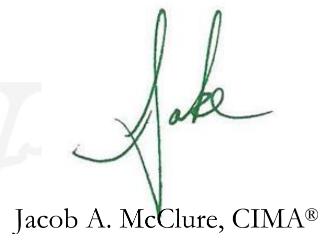
Reflecting that set of conflicting data, the Federal Reserve Board's Open Market Committee (the Fed) released their minutes and they too see conflicting trends. The underlying economy is clearly going strong and has a lot of momentum, year over year inflation is running at or below 2%, the unemployment rate is about as low as it can get. At the same time, both manufacturing and services rates appear to be slowing and the global economy is clearly sagging toward zero growth.

Christine Lagarde, the head of the International Monetary Fund put it well when she said the near-term future of the global expansion depends on political decisions and actions on trade. The major trade issues will be decided by U.S. policy on tariffs. If the threatened 25% tariffs against the European Union and China are enacted, both will likely hit back with at least equal tariffs. That will likely tip the global economy into recession (where Italy, for example, already is). On the other hand, new trade agreements and removal of tariffs could and probably will give both the U.S. and the global economy the energy it needs to become the longest economic expansion on record.

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





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