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Jeffrey W McClure CFP® *Jacob A McClure* CIMA®

PO Box 1029 / 918 N. Main Street
Salado, TX 76571

(254) 947-1111
(800) 914-7526

Serving Investors Since 1982

www.tpwc.com

jeff@tpwc.com jake@tpwc.com

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TPWC Market and Economic Update

The Markets

In this holiday-shortened week, the S&P 500 Stock Index (SPX) looks to have had the same attitude as many workers anticipating a long weekend and didn't do much. The SPX closed out the week on Thursday the 18th at 2905.03, down a meager 0.08% from last Friday's close. It was up a bit and down a bit during the week but seemed to be in a "wait and see" mode. The Index remains up nearly 16% year-to-date and is up nearly 8% from this time last year, so there is not much to complain about. The ten-year U.S. Treasury note yield followed suit, rising only about 6/100 of one percent to end the day at 2.563%. The sag in rates from two to five years continues to be present and perhaps prescient.

West Texas Crude Oil too went almost nowhere with a moderate amount of enthusiasm during the week, closing at $64.03 after opening the week at $63.62. Oil remains up over 36% year to date but only up 3% from last year at this time. Gold bucked the trend, dropping over 1% to $1,277.20.

The Economy

Among the few fundamental reports to come out this week, perhaps the most significant was the report by the Board of Governors of the Federal Reserve System in its Industrial Production and Capacity Utilization Summary. In January U.S. manufacturing production declined 0.3%, then rose 0.1% in February before falling a like amount in March. That sounds indecisive until you note that the total for the first quarter for U.S. manufacturing came out to a negative 0.3%. If the second quarter were to continue the same theme then we would be, at least theoretically, in a manufacturing recession.

Given that the real engine of our economy, retail sales, rose 1.6% in March, rebounding from the declines in December and January, the first impression might be that a little manufacturing slump is no big deal. The problem with that view is that manufacturing, although a shrinking source of jobs, is still about 12% of our economic output. More importantly, manufacturing is a leading indicator, commonly showing the direction in which the rest of the economy will follow in a year or two. Still, the rise in consumer activity has raised consensus estimates for the first quarter U.S. GDP annualized growth rate to 1.8%. Moody's Analytics is estimating an even higher number, 2.3%. We will see next week. Those numbers are much higher than were forecast a couple of months ago. More good news popped up as of the 23 companies in the S&P 500 to report quarterly results so far, nearly 83% have beaten analysts' expectations, significantly higher than we have seen at this point in recent quarters. On the heels of the good earnings reports, the labor department announced that the number of Americans filing for unemployment benefits fell to a new 50-year low.

The good U.S. economic news fed the bull market for the U.S. dollar, causing it to continue its rise. It is now up over 9% against the Euro from this time last year at $1.12 to buy one Euro. A rising dollar is good for American egos and makes American tourists happy when visiting Europe but it also makes U.S. goods and services more expensive in international markets.

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In a perverse sort of good economic news, China, like the U.S., appears to have dodged the bullet for 2019 as what looked like a bear market in the U.S. and a looming recession in China appears more and more to be a mirage. China came out with its first-quarter GDP numbers and it appears to be growing at a 6.4% annual rate. As much as we and they like to consider ourselves competitors, the total economic output of our two nations exceeds 50% of the world GDP. Because we live in a globally interconnected world, a recession in China would very likely trigger one here as well.

Not only do both the U.S. and Chinese economies appear to be on the mend, but we also appear to be drawing closer to a productive trade deal. Perhaps at least in part because of that optimism, the U.S. trade deficit contracted in March as exports increased by 1.1% while imports only rose 0.2%. As we have written before, the opportunity for this economic expansion to get a second wind may well depend on the U.S. and China coming to an agreement and both sides dropping their recently imposed tariffs.

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

Jeffrey W. McClure CFP®
M.S. Personal Financial Planning

Jacob A. McClure, CIMA®

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