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TPWC Market and Economic Update

The Markets

Just to show it has a mind of its own, the S&P 500 Stock Index (SPX) put in almost all of its 1.2% rise on Monday rather than waiting for the GDP news on Friday, closing out the week at 2939.88, a full nine points higher than last year's record close of 2930.75. Once it broke through, barely, to a new high, it seemed reluctant to move on despite the flurry of new initial public offerings (IPOs) that promptly soared to the heavens. Zoom, a video technology company, rose 81% after its IPO in a soaring debut reminiscent of the dot-com boom of the late 1990s. This year appears to be headed toward breaking the records for total dollar valuation of IPOs set in that boom of twenty years ago. Note that we do not recommend getting on board in this IPO stampede any more than we did the last one!

This week's small but significant rally put the SPX at a new historical high and raised its year-to-date gain to 17.27% and up 10.11% for one year. In doing so it put December's near bear-market decline in the dustbin of history. As we have written before, this market behavior of a sudden drop followed by a return to a full-blown bull market rally to new records is historically typical in the last stages of a long-term economic expansion.

The 10-year U.S. Treasury Note yield counterbalanced the optimism of the stock market as its yield fell 6.8 basis points to 2.501% with the ominous dip from 2 to 5 years to below that of the 90 T-bill. In short, the bond market continues to signal a downturn sometime in the next few years, but not right away and with better times beyond that point. West Texas Crude Oil soared, fell, rose again and fell again to end the week down 1.89% at \$62.85 on conflicting news. The more significant issue is that oil is up nearly 33% this year and that shows at the gas pump. The good news is that the abundance of U.S. shale oil appears to have headed off a much higher price as the Trump administration announced a tightening of the embargo on Iranian oil.

The Economy

The headline economic news was that the Commerce Department's first estimate for the first quarter the U.S. economy was growing at a 3.2% annual rate and coincidentally grew exactly that much over the last four quarters. The numbers were generally a surprise to observers and appear to have been generated by a surge in U.S. exports, a decline in imports, a 2.4% rise in government spending and a continuing inventory buildup. Oddly, the main driver in the U.S. economy, growth in consumer spending, appears to have slowed in the quarter to about 1.2%, down from a 2.5% growth in the fourth quarter of 2018.

In a pattern normally seen at the beginning of a recovery rather than in a mature expansion, business investment was up at 2.7% while investment in physical structures, personal and commercial declined to 0.8%. That same conflicting pattern showed up as new home sales jumped by 4.5% in March, but building permits for new construction fell by nearly 0.3%. Manufacturing in the mid-Atlantic states was reported by the Richmond Federal Reserve Bank to have fallen to a very slow growth April but was expected to improve. In the midst off all the conflicting data, the Personal

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Consumer Expenditure Price Index (PCE) rose by only 1.7%, indicating either an oversupply of goods or a decline in demand.

The economy, both here and abroad, continues its digital-based shift. The Financial Times reported a record number of physically located stores and shops have been closing despite a good economy and anecdotal reports here in the U.S. echo that report. This historic shift appears to be the largest retail transformation since the “big-box” stores proliferated across the country, eliminating thousands of small, local stores. The small businesses are again taking the hit but now the big-box stores are having to hustle too as the fear of Amazon stalks their headquarters and investors. Amazon, the former bookseller now turned into an everything-seller reported record earnings for the first quarter and added an announcement that it was moving to one-day delivery virtually everywhere in the U.S. and Europe. The times, they are a changing!

Overall the economy remains at a cusp and as before, the results of trade talks between the U.S. and China are the critical factor. If as expected, the talks produce a positive outcome, this good start on 2019 shows every sign of being a second wind to the expansion and bull market. At the same time, there are signs of some underlying weakness. Once again, watching patiently is the order of the day.

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



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