THE PERSONAL WEALTH COACH®

An SEC Registered Investment Adviser

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

The week's theme for the first market week of 2019's third quarter was, "Even not-so-good news is good news." The S&P 500 Stock Index (SPX) rose 2.24% for the week to end at 2990.41, less than ten points short of the magic 3000 mark after bumping up to 2995.82, another record close, on the shortened market day Wednesday. The not-so-good news was that the recently imposed 25% tariffs on $250 billion of Chinese imports would remain in place but the application of that level of tariffs on another set of goods worth $300 billion annually would be put on hold. Notably, while the announcement of the 25% tariffs a couple of months ago caused a market decline, the announcement that they would remain in place, but more tariffs were tabled, caused a rise in stock values. The SPX is now up 9.28% from this time last year.

The strange stock market behavior in which good news, like the June jobs report, causes the market to decline and bad news, like May's weak jobs report, causes it to rise is due to a focus on the Federal Reserve. At the top of a market or economic cycle, investors tend to focus on short-term interest rate adjustments by the Fed. Bad economic news tends to cause the Fed to lower short-term rates, exciting investors, while good economic news tends to be followed by short-term interest rate increases, depressing traders' enthusiasm.

After dipping below the 2% mark to 1.95% on July 3, the ten-year U.S. Treasury note ended the week at 2.041%, a mere 1.7 basis points (100ths of one percent) below last week's close. With the 90-day T-bill yielding 2.211%, the yield curve remains firmly inverted, signaling a high probability of a recession in the next 12 to 18 months. The dollar rose 1.15% to close at 97.24 on the WSJ Dollar Index and is up 3.41% from a year ago. The drivers appeared to be the tariff news and jobs report. West Texas Intermediate (WTI) oil declined almost 1% to $57.67 on continued indicators of declining demand amid slower global economic growth.

The Economy

June's employment report was released Friday by the U.S. Bureau of Labor Statistics (BLS). That report indicated that hiring surged in the month to a net 224,000 new jobs filled in the U.S. economy. The word "surged" is appropriate as last month's new hires netted out at 72,000 making June's report a 200% jump in new employees. That means that either May's decline in hiring or June's surge was an anomaly. More significant is the three-month moving average of new jobs filled. It is currently running at 171,000 while a year ago it was 243,000. As is common with economic moves, we will need to wait another month or more to see which way the trend is pointing.

171,000 is still a high number, higher than the new labor market participants being created by school graduations and other standard sources, meaning that it is not sustainable over the long-term. We did see where the new hires were coming from as the unemployment rate rose from 3.6% to 3.7%. That number comes from the "Household Survey" in which the BLS workers call random households across the country and ask about employment. It seems quite a lot of people who had dropped out of the labor market for various reasons have decided to return. They appear to be attracted by offers of higher pay and better working situations.

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There typically are a lot of cross-currents at economic tops and bottoms and this one is no exception. The Bureau of Economic Analysis at the Commerce Department announced on July 3 that the U.S. trade deficit jumped 8.4% in May from April to $55.52 billion for the month, the biggest rise in more than four years. Last week we commented that consumer spending was up but both domestic manufacturing and domestic services saw a decline. This announcement is a confirmation that it indeed was imported goods that consumers were buying. The lion's share of that increased trade deficit was with China even though tariffs were already in place.

The increased trade deficit will have a direct impact on the Commerce Department's GDP estimate due out on July 26. Current estimates by the Atlanta Federal Reserve Bank and historically accurate private firms suggest the second quarter GDP will come in at an annualized rate of between 1.3% to 1.5%, or less than half the growth rate reported for the first quarter. If we see a decline of that magnitude, it will be a reversal of the pattern we have seen for the past several years as first quarters were low and followed by rising quarterly growth rates through the year.

Until next week, we remain your faithful observers, analysts, and portfolio managers.

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

Jacob A. McClure, CIMA®

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