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 S&P 500 Stock Index (SPX) closed out the week up a mere 0.78% at 3013.77, but at a new record high and, notably, for the first time, at an end-of-week close above 3000. The number sounds impressive, and it is psychologically, but the Index has only risen 7.58% from one year ago, about the average annual gain over its long history and is only up about 2.9% from where it was at the end of last September. Still, the fact that it rose above that symbolic 3000 level on Thursday and then slowly improved to end higher on Friday says a lot about the attitude of professional investors. As always, where it goes from here is the big question. There are more than a few signs that this leg of the bull market has legs. An interesting but historically common event preceded the stock market run-up to the new record. Individual investors pulled nearly $30 billion from equity mutual funds last week. Historically, when individual mutual fund investors panic and bolt to sell their funds, it is a good time to buy or at least hold fast. That maxim appears to have once again been validated.

The benchmark 10-year U.S. Treasury note managed to crawl back above the 2% yield level closing out the week with a yield of 2.118%. With the 90-day T-bill yielding 2.151%, the inversion of the yield-curve remains but is not as severe. That did not help the yield dip at the two- and three-year maturities, yielding 1.87% and 1.85% respectively. Hurricane warnings in the Gulf of Mexico sent oil up 4.43% for the week and about 15% from a month ago to $60.30.

The Economy

This July marks the point where this economic expansion becomes the longest since official records began in 1854; 121 months. Part of that record can be explained by the rate of GDP growth in this expansion, which has averaged 2.3% per year versus the average 3.6% per year in the three previous expansions. That difference means that the economy may have been expanding longer but has expanded less than any other recent long-term expansion period. Another metric that is lower than we have seen since before WWII is inflation, now running at a ten-year average of only 1.6%.

During this expansion, our economy has evolved into something that even in the 1990s would not be recognizable. In the last half of the 20th century, the United States was an industrial powerhouse, with the big three automakers occupying a dominating slice of the economy and banks both highly profitable and the second cornerstone of prosperity. Today, if there were something like a “big three” it would actually be “five”; Microsoft, Apple, Amazon, Alphabet (Google’s parent), and Facebook. In another perspective on that statistic, if we used market capitalization as the measure of size, number five would be Berkshire Hathaway, a company that doesn’t actually do anything except own shares in other companies. None of those companies is in heavy manufacturing, nor are there any banks. Even the one company in the list that does some serious, although light, manufacturing, Apple, does most of that manufacturing outside the U.S.

At the same time, this strange, almost unrecognizable U.S. economy is by any measure the strongest, most resilient, and fastest-growing of the larger world economies. We fret because our 10-year benchmark bond-yield is around 2%

while in Germany and Japan, the two economies that were giving us a run for first place twenty years ago, ten-year interest rates are *negative*! Only 4.27 percent of the world's population lives in the United States, but they produce around 25 percent of the goods and services of the entire planet, about $20 trillion per year. China, by comparison, has about 18.5% of the world's people but only about 15% of the world's GDP or about $12 trillion.

Another metric has perhaps even more profound implications over the long-term. Both China, the number-two economy, and the European Union, number three, find themselves with an effective annual population growth of near-zero percent and facing a rapidly aging population, while the U.S. is still a "growth" economy with population growth averaging about 1% per year.

This economic expansion will eventually come to an end and we will undoubtedly have a recession, but even as we do, recognize that of all the nations and allied groups of nations on the planet, you are living in one that is by far the most economically healthy and dynamic.

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®