
# THE PERSONAL WEALTH COACH®

**An SEC Registered Investment Adviser**

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## TPWC Market and Economic Update

### The Markets

Although it slipped a wee bit on Friday, for the week the S&P 500 Index did quite well, rising 1.94% to 3899.38 leaving it down just over 18% this year and 10.76% from this time last year. Looking at the SPX from three years ago, it is up about 28% or about 8.44% per year. Our other followed index, the CRSP Mid-Cap Value Index declined 0.10% for the week to 2263.76 but held its loss this year to 12.84% and 7.33% for the last 12 months.

The yield on the ten-year U.S. Treasury note reversed its recent declines to rise over 6% to 3.078%. The Treasury yield curve from two-years to ten years went slightly negative with the two-year note yielding 3.115%. While there was much print and many words decrying that move, the negative slope will both have to get larger and linger for several weeks before it suggests a recession is in the offing. The curve was positive until the employment report was released on Friday. The 30-year bond yield remained on the positive side of the slope at 3.251%. West Texas Intermediate crude oil (WTI) slipped a little more, dropping another 3% to $104.86 and gasoline prices followed to the relief of drivers across the land.

### The Economy

The lead story this week was the Labor Department's report that U.S. employers added a net 372,000 jobs in June as the unemployment rate remained at a near-50 year low of 3.6%. Once more the difference between what business surveys report and what businesses are doing is stark. Business owners and managers are consistently reporting that they believe a recession is soon to come while at the same time they are eager to hire more workers. Historically, recessions do not happen as long as we have low unemployment and robust hiring. If employers were to stop hiring but not lay off workers, that would indicate caution, but the hiring binge they are on suggests they believe what is coming is robust economic growth. In a separate report, the Job Openings and Labor Turnover Summary, the Labor Department data suggests that an even larger number of people were hired. The difference between the number of people who either quit or were terminated and those hired was about 500,000 as unfilled job openings slightly decreased as of the end of May.

Another discrepancy has appeared and keeps growing. The Commerce Department reported that U.S. gross domestic product (GDP) contracted by 0.4%, net of inflation, in the first quarter. Deeper in the report though was the news that real U.S. gross domestic income (GDI) rose 0.45% at an annualized rate of 1.8% for the same period. Theoretically, GDP and GDI should be the same number, but they are diverging. Both have inflation (CPI) subtracted from them and theoretically adjusted the same way, but our national income, net of inflation, appears to be growing at around 2% per year while our national product is theoretically contracting.

Meanwhile the Institute for Supply Management released their Manufacturing and Services Indexes for June, noting that the U.S. economy just had its 25th consecutive month of growth. The Manufacturing Purchasing Managers Index (PMI) came in at 53 and the Services PMI was reported at 55.3. Both are on a scale where 50 is the dividing line between growth and contraction. 53 is generally considered to be growth at a sustainable level while numbers above 55 suggest some overheating. In short, the underlying indicators of what is actually happening in the U.S. economy still indicate strong growth despite a negative GDP and pessimistic surveys.

One thing that is slowing is house price increases and sales. Several markets around the country are reporting that house prices are coming down as more houses are put on sale and mortgage rates rise. National average 30-year mortgage rates did decline from 5.7% last week to 5.3% this week but are still affecting the housing market.

Bloomberg Economics came out with an estimate that there was a 38% chance of a mild recession in the next two years but a couple of voting governors on the Federal Reserve Board dismissed the idea, commenting that the U.S. economy still has “tremendous momentum” and called for another 0.75% increase in the federal funds rate at the next meeting of the Board. The minutes of the most recent Federal Reserve Board meeting were published and suggest that the Fed may raise rates quickly but then take a break and watch what happens in the economy. While we are sure they are not interested in our opinion, we agree with the Fed governors that the economy remains on a tear and there is no evidence of a coming recession in any of the indicators. Morningstar continues to report the stock market is, on average, underpriced at this point. What happens next is anyone’s guess, but we suspect the market has overreacted and a year from now we will look back and conclude that Morningstar was right.

As always, we remain hard at work in our endless endeavor to provide the best possible fiduciary service, investment advice and portfolio management.

Sincerely yours,

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

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