THE PERSONAL WEALTH COACH®

An SEC Registered Investment Adviser

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TPWC Market and Economic Update

The Markets

Our dear old familiar stock market indicator, the S&P 500 Stock Index (SPX) turned in another interesting week, riding along smoothly in the mid-3800s for the first couple of days, then bolting down to the low 3700s on Thursday morning as the one-year inflation number was reported higher than expected. As Friday dawned though, the SPX found its groove again as retail spending figures came in strong. For the week ending July 15, the Index was down 0.93% to close at 3863.16. That close leaves it down 19.4% from its high in early January and down 10.72% from a year earlier. Longer-term, the SPX is almost 30% higher than it was three years ago, and still holding an average annual compound return of 9.08%. Our other market indicator, the CRSP US Mid Cap Value Index, ended the week at 2255.12, down 0.38% for the week, 13.17% this year and minus 5.54% from a year ago.

The ten-year U.S. Treasury note yield slipped down about 5% to 2.924% as the prospect for much higher interest rates over the next decade dimmed. Unfortunately, with the two-year note yielding 3.132% that leaves the short-to-intermediate Treasury yield curve still slightly inverted. Out at 30-years, the yield is higher at 3.091% but with the one through three-year notes showing a higher yield than anything longer-term, we do have an inversion. We can take comfort in that it is a very mild inversion by historic standards, so if it is predicting a recession next year, it is predicting a mild one. West Texas Intermediate crude oil (WTI) fell below the $100 mark, dropping almost 7% to $97.55, providing some good news at the gas pump.

The Economy

The headline economic news for the week was the Labor Department's report that the June Consumer Price Index (CPI) was 9.1% higher than it was a year ago with a jump of 1.3% just in the month of June. Even the "core" CPI which removes food and fuel from the calculation was up 5.9% from last month. Half of that rise was visible at gas stations with motor fuel prices up 11.2% for the month. If you read the Markets section above, you may immediately recognize that as oil has declined from around $120 per barrel in June to this week's $97.55, July is on track to show a lower inflation rate. The concern expressed by stock traders and economists alike was that the higher-than-expected jump in headline inflation might cause the Federal Reserve to overreact and drive the economy into a serious recession.

Then, Friday morning came, and with it a report from the Commerce Department that U.S. retail sales rose 1% in June. Consumers were out in force and spending more at restaurants and on things like groceries and furniture. The picture remained clear that neither consumers nor employers were acting like a recession is underway as the economy added 372,000 new jobs in June. Despite a slight fall in manufacturing output for the month, manufacturers increased their number of employees by 29,000. The trend of a still-growing economy was reinforced as initial jobless claims held to a four-week average of 232,500. The number to watch for there is 250,000. If the moving average gets higher than that for an extended time, unemployment is likely on the rise and the economy is likely slowing.

Another indicator with a good record of suggesting what will happen in the future, the price index for U.S. imports, advanced 0.2% in June (a 2.4% annualized rate) while export prices rose 0.7%. Importantly, if we remove the 5.7% rise in imported petroleum prices from that number, the average price of imported goods *fell* 0.5%. At least part of the price decline can be attributed to what is happening to the dollar. Just a few years ago, it took $1.40 to purchase one Euro but here in the middle of July, for the first time in over 20 years, the dollar and the Euro are essentially on par. As with other indicators, import price moves are not a guaranteed indicator of future inflation, but often, import prices lead the inflation numbers by about six to twelve months and are a strong suggestion of what is to come.

Despite all the nay-sayers, the U.S. economy is continuing to show every sign of robust growth. Household finances are in as good or better shape than at any time since records have been kept. More, according to J.P. Morgan, credit card sales volume is up 13% from the first quarter and 15% from a year ago, and commercial loans are up 7%. More importantly, nonperforming loans are well under 1%. We have seen more than a few recessions in the making, but none of them have looked like this. What we continue to see is a strong, healthy economy that, if anything, could benefit from a bit of a slowdown.

Until next week we remain devoted, focused, and delighted to be your fiduciary portfolio managers, investment advisor, and obedient servants!

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