THE PERSONAL WEALTH COACH®

An SEC Registered Investment Adviser

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TPWC Market and Economic Update

The Markets

The broad U.S. stock market, as represented by the S&P 500 Stock Index (SPX) had a good week. The venerable index rose 4.66% to a record closes of 5995.54 after being above 6000 earlier Friday. This week's rise puts the SPX up a whopping 25.7% this calendar year and almost 37% higher than a year ago as well as up about 28% in the last three years. Our other stock market indicator, the CRSP U.S. Mid Cap Value Index, turned in a respectable 3.87% gain this week, closing at 2963.83 and is now over 32% higher than a year ago.

The benchmark ten-year U.S. Treasury note ended the week yielding 4.3% compared with its 3.88% yield as the year began. Three years ago, the ten-year yield was 1.51%. That amounts to an interest rate increase of 184.77%. Considering the Fed Funds Rate cut announced this week, the very short-term, one-month T-bill held up quite well holding on to an annualized yield of 4.70% compared with 4.75% a week ago. West Texas Intermediate crude oil finished the U.S. market week at $70.47 per barrel, well within the recent trading range and about 6.45% less expensive than a year ago.

The Economy

To almost no one's surprise, the Federal Reserve Board cut short-term interest rates by a 0.25% this week to a range of 4.5% to 4.75%. Expect those high money market rates to follow suit. Markets appeared unfazed as Chairman Powell said that the U.S. economy is showing unexpected strength.

Economic news this week was overshadowed by the election and speculation on what might happen under the Trump administration. As we have said before, both candidates were promising higher spending and reduced taxes so we can assume that policy has bipartisan support. We can reasonably assume that tariffs will rise substantially as the Office of the President has had that power delegated to it from Congress. We can also assume that short-term tax cuts for at least some are also in the works along with substantially increased government spending. Even if tariffs are increased as much as President Trump promised, the new revenue will almost certainly not offset the promised tax cuts and increased spending. That means we may see a dramatically increased deficit and national debt. That, in turn, would mean a much higher issuance of bonds by the Treasury, even as global, and probably U.S. economic growth is reduced by tariffs. Tariffs make imported goods more expensive and thus should reduce the purchase rate. That is what they are intended to do.

The bottom line is that there is a reasonable probability that intermediate and long-term interest rates will rise, and potentially rise quite a lot. Those higher rates would attract money from around the world, increasing the dollar's market value, thereby reducing U.S. exports as U.S. products, priced in dollars, become more expensive in terms of other currencies. That also means that the market value of existing bonds would tend to fall as they have done the last several years. At the same time, lower taxes combined with increased spending has the potential to increase corporate profits thus potentially increasing corporate earnings and spurring a stock market rise. That too has already begun.

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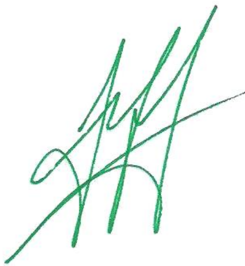
That same set of economic changes would effectively be a stimulant to the economy as more money is spent by the Federal Government while less is taken in taxes. It is, in short, a recipe for an economic boom. Unfortunately, it will also tend to accelerate inflation. For now, we don't know if the House of Representatives will go along with the massive deficit increase implied in the policies promised, but at least in the short-term, look for the already rapidly expanding U.S. economy to continue to do so. Longer-term, accelerating the growth of the federal debt is problematic but at least will feel good for a while.

Despite the promises of tax cuts by both candidates, investors appear to be assuming that at some point, the bills will need to be paid, and higher investment taxes are coming. Many are positioning their investments with the assumption that the Tax Cuts and Jobs Act, set to expire at the end of next year, will be followed by a higher tax rate for them.

The Bureau of Labor Statistics (BLS) announced that U.S. worker productivity was increasing at a 2.2% annual rate in the third quarter. Once more, we are producing more output than it is costing American businesses to create. Real compensation (wages and benefits) rose 2.8% over the last four quarters, and at a 3.0% rate in the third quarter of this year. For better or worse, that productivity appears to be concentrated in the non-manufacturing sectors. Manufacturing productivity only increased at a 1.0% rate as labor costs increased 5.7% from the same quarter a year ago. In another bit of good news, despite some surveys indicating a decline in manufacturing output, the BLS found that U.S. manufacturing output increased 1.5% in the last year and has risen 7.3% in the last three years.

Until next week, we remain your faithful, fiduciary servants, striving to serve you better and keep improving the quality of our investment advice and management of your portfolios.

Your obedient servants,



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