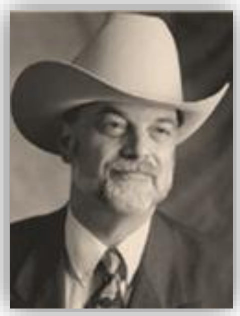

THE PERSONAL WEALTH COACH®

An SEC Registered Investment Adviser

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TPWC Market and Economic Update

The Markets

As represented by the S&P 500 Stock Index (SPX), the stock market expressed some second thoughts about the economic, or at least corporate earnings prospects generated by a Trump presidency this week as it declined about 2.08% to close at 5870.62 this week. That retracement still leaves the SPX up about 23% this year, just over 30% from a year ago and 25% higher over the last three years for a three-year average annual rate of 7.83%. The other stock market indicator we follow, the CRSP US Mid Cap Value Index, slipped 1.24% to 2927.03 but remains up about 17% this year and 26% from a year ago.

The benchmark ten-year U.S. Treasury note yield continued its rise to 4.43% this week from last week's 4.30%, while the one-month T-bill held at an annualized rate of 4.7%. The price of a barrel of West Texas Intermediate crude, the U.S. petroleum benchmark, fell 4.79% to $70.38 as demand from China continued to decline.

The Economy

There was no shortage of economic news this week, and everything looked good. The Bureau of Labor Statistics (BLS) reported that the Consumer Price Index (CPI), the most widely followed measure of U.S. inflation, rose only 0.2% in October and was up 2.6% from last year. If we pull out the relatively volatile food and energy data to get the so-called "core" CPI, the monthly increase rises to 0.3%, and the annual measure of inflation rises to 3.3%. All the numbers were higher than the Federal Reserve's goal of 2% inflation but were both steady and low enough not to be considered dangerously high. We have been saying that we expected long-term inflation to stabilize around 3% based on historical trends, and it is looking more and more like we were right.

We also pay attention to the Producer Price Index (PPI) from the Bureau of Labor Statistics (BLS). In October, the PPI for final demand, i.e., the index of wholesale prices as retailers pay them, was up 0.2% in October and 2.4% for the last 12 months. Interestingly, the wholesale price of services is rising at about 3.3%, while goods prices have fallen about 1.2% over the previous year. A little further upstream, the cost of intermediate goods and services has decreased by 2.9% in 12 months. It certainly looks like the inflationary pressures have abated. Another critical point that emerges from that data is that retailers are bumping the inflation numbers up, which appears to result from a labor shortage at the retail level. Our economy continues to bump into the fact that we don't have enough people willing to work at the retail level. Over the past several decades, much of that low-level, relatively low-income work has been done by immigrants. In the more distant past, younger workers filled those jobs as they entered the workforce. Unfortunately, our native birth rate has declined, and we have far fewer young workers to fill those jobs as a percentage of the workforce.

The same trends are confirmed even further up the goods and services supply chain. Because we import substantially more goods than we export, import prices tend to drive both the PPI and the CPI. The BLS reported this week that prices for U.S. imports rose 0.3% in October and 0.8% from a year ago. The most volatile element in that area is fuel imports. If we remove fuel from the calculation, import prices have risen 2.3% in the last year.

Our clients have expressed concern over the years that the Chinese yuan (aka renminbi) might somehow replace the dollar as the world reserve currency. Indeed, Premier Xi commonly expresses that desire, such as at last month's BRICS conference. Actions speak louder than words, though. Despite having no internal need for more dollars, the PRC Finance Ministry is offering sovereign bonds denominated in dollars rather than yuan. The Chinese government remains committed to retaining their currency for use only in the People's Republic to retain tight control of the yuan's market value. Another interesting issue is that dollar-denominated sovereign bonds issued and guaranteed by the People's Republic of China are offered on the Riyadh Exchange in Saudi Arabia rather than on a Chinese exchange. Even as the Chinese Premier calls for the de-dollarization of the world economy, when the PRC needs external funding, it asks for it in dollars.

The bottom line remains the same. The U.S. economy is, as we used to say, "firing on all cylinders" and appears to have plenty of fuel and momentum to continue to expand. There are concerns that if the new administration does impose steep tariffs while at the same time deporting millions of undocumented immigrant workers, prices will rise for both imported goods and labor, but that is only a possibility and one to worry about on another day.

Until next week, rest assured that we at The Personal Wealth Coach® are hard at work doing our fiduciary duty, ready to respond, provide investment advice, and doing our best to manage your portfolio toward your unique goals.

Your obedient servants,

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

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