3.9.18

GOLDILOCKS ECONOMY = FLAT WAGES?

Volatility has returned in a major way. Our current equity exposure is at 3% and on Friday we added to our existing position in the American Beacon SoundPoint Floating Rate Fund (SPFYX). This fund provides annual interest of about 4.65% with very little sensitivity to rising rates. Over the coming weeks we look to build out our core portfolio by reviewing and locating lower risk investments that can provide resiliency to the possibility of rising rates. At the same time, we will also be looking for opportunities to make strategic trades with the potential to capitalize in either up or down markets in both stocks or bonds.

The S&P 500 lost 2% last week and rebounded by 3% this week as Friday's National Jobs report showed a substantially less than expected wage growth of just 0.1% month-over-month and also dropped the increase in wages to 2.6% year-over-year from 2.9%. This single data point is what pushed markets way up on the day as it may have temporarily closed the chapter (but not the book) on inflation worries. Even though the headline number of jobs created was a great number, unfortunately, the exuberance in the stock market on Friday was provided by muted wages, which isn't an economic positive. The proclaimed "Goldilocks economy" is apparently golden only to the top 10%.

Many market watchers became embroiled in scapegoating President Trump's tariff on steel and aluminum as the unfounded reason for stock market jitters. And… if that wasn't a good enough reason, then the resignation of his chief economic advisor on Wednesday evening was supposed to act as the administration's death knell. Both of these occurrences provided an obsessive media frenzy but with little-to-no effect on the greater direction of the economy.

Following the jobs report, was the Federal Reserve Bank of Atlanta's forecast for 1st quarter GDP. Last week's 3.5% growth was dropped all the way down to 2.5%! Keep in mind that in January the forecast 1st quarter GDP was for 5.4% growth! Markets were able to overlook this downcast snapshot as another sign that inflation would remain muted. This may create another round of "bad news is good news" which will keep the Federal Reserve from removing the punchbowl of easy monetary policy too quickly. This will allow the stock buyback binge, financed with borrowed money, to continue for now.

Economic reports in the U.S. haven't shown that the economy is about to skyrocket either. Retailers that appeared to show a strong Christmas season now showing a slowdown. Major names like Costco, DollarTree, Ross Stores, and Target all saw declines this week. Much of their decline can be linked to a sizable decrease in credit card usage. January's Consumer Credit Report showed an increase of just $0.7 billion of credit card usage versus November's $11.3 billion increase and December's $6.1 billion increase. Those initial "feel good" expenditures are now being paid off – most likely with tax return checks. From the manufacturing sector, factory orders fell 1.4% with a drop in core capital goods. Productivity – which should be increasing in a robust economy – was flat, while labor costs for employers rose from 2% to 2.5%. This typically acts as a negative for corporations because paying more in benefits eats into corporate profits.

Interest rates will continue to be an over arching focal point throughout the year. With Friday's rally, interest rates on the U.S. 10-year treasury bond continue to sit towards the upper end of the spectrum at 2.89%. It wasn't long ago that rates were causing enormous stock and bond market worries at 2.94%. If they move closer to that number again, stock markets will have a difficult time exceeding their previous highs. On the other hand, in order for rates drop there must be either slower growth or a continued reduction in fears about inflation. This Tuesday will help to provide some indication, as February's numbers on consumer inflation will be released.

More reports on various aspects of inflation will be the producer price index release on Wednesday and Thursday's report on prices for imports and exports.

Other reports to gauge consumer strength will be national retail sales for February, along with housing starts and building permits. On the manufacturing side we will be reading through reports from the NY and Philadelphia regions.

As always, we will continue posting articles that we believe to be of great informational value on our website, under the "Great Articles" tab, which is linked here:

http://summitplan.com/cgi-bin/htmlos.cgi/great_articles.html.

Additionally, the "Summit Planning Financial Hour" will be live this week on Radio 570-WSYR at 10AM on Saturday. Don't forget to tune in for a recap of the week's events. If you cannot tune in, check out our radio show archive on our website at http://summitplan.com/cgi-bin/htmlos.cgi/radio_shows.html.

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