



PAULA PORSCHE
WEALTH MANAGEMENT

together through life

Paula Porsch Wealth Management Presents:

MONTHLY ECONOMIC UPDATE

February 2017

MONTHLY QUOTE

“But in this world nothing can be said to be certain, except death and taxes.”

- Ben Franklin

MONTHLY TIP

If you are a high earner, living below your means can free up money you can use for investing or an emergency fund. Try tracking your spending this year; see where you could cut back and find money to save or invest toward your goals.

MONTHLY RIDDLE

It cries with no voice, it bites with no teeth, it rages with no anger, and it is never seen. What is it?

Last month's riddle:

When Mae was 2 years old, her sister was half her age. Today Mae is 100 years old, so how old is her sister now?

Last month's answer:

99 years old. Half of 2 is 1, $2 + 98 = 100$, and $1 + 98 = 99$.

THE MONTH IN BRIEF

Stocks advanced again in January. The Dow Jones Industrial Average closed above 20,000 for the first time, and the S&P 500 gained 1.79% on the month. As January ended, politics took center stage: investors focused first on the controversy surrounding President Donald Trump's executive orders, then on earnings and economic indicators. As the forex market sensed that the new administration might prefer a weaker currency, the dollar stumbled. Growing haven demand sent prices of metals higher, while prices of energy futures fell. Consumer confidence plateaued at a high level, while home sales declined. While the latest consumer spending report was solid, the first estimate of fourth-quarter growth was unimpressive.¹

DOMESTIC ECONOMIC HEALTH

Was 2016 really the poorest year for U.S. economic growth since 2011? Yes, according to the Bureau of Economic Analysis. It said that the economy expanded 1.9% in Q4, which means our GDP was only 1.9% for the whole year. It appears 2016 will be recorded as the eleventh straight year in which our economy grew less than 3%.²

The manufacturing and service sectors kept growing in December. Data from the Institute for Supply Management's purchasing manager indices showed the pace of expansion picking up for the factory sector – that PMI improved 1.5 points to 54.7. The service sector PMI remained in good shape at a mark of 57.2. Industrial output rose 0.8% for December; hard goods orders fell 0.4% in that month, but actually rose 1.7% minus defense orders.^{3,4}

Consumer spending was strong in December. The latest Department of Commerce report showed personal spending rising 0.5% and personal incomes 0.3% in the last month of 2016. (A month earlier, spending had advanced 0.2%, and incomes, 0.1%.) Retail sales grew 0.6% in December, but were flat minus gas and auto sales.⁴

The Department of Labor's December employment report underwhelmed some analysts. Employers added 156,000 net new jobs to their payrolls, which left total 2016 hiring growth at 2.2 million – the lowest yearly figure since 2011. On the bright side, hourly wages averaged \$26.00, thanks to a 2.9% annualized increase, the best seen since June 2009. The U-3 unemployment rate was at 4.7%; the U-6 rate counting underemployment, at 9.2%.⁵

Two respected consumer confidence gauges went opposite ways in January. Falling 1.5 points to 111.8, the Conference Board's index remained at a high level. The University of Michigan's consumer sentiment index finished January at a solid reading of 98.5, rising slightly from its preliminary mark of 98.1.⁴

By one measure, consumer inflation was rising. The Consumer Price Index showed a 2.1% yearly advance in December, up from 1.7% a month earlier. In contrast, the Federal Reserve's preferred inflation gauge, the core PCE price index, showed yearly inflation at 1.7%. Meanwhile, the headline Producer Price Index rose 0.3% in December, to bring its 2016 advance to 1.6%.⁴

President Trump signed a number of executive orders during his first ten days in

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office, including an order that temporarily prohibited citizens of seven predominantly Muslim countries from entering the United States. Foreign governments, tech firms, and some Wall Street market participants pondered the long-term effects of the order. Another executive order stated that for every new regulation implemented by a federal agency during Trump's administration, two regulations would have to be revoked. A third, widely expected executive order took the U.S. out of the Trans-Pacific Partnership.⁶

GLOBAL ECONOMIC HEALTH

At long last, the European Central Bank met its inflation target: in December, euro area consumer prices rose at an annualized pace of 1.8%. That was the most inflation seen in the euro area since Q1 2013. (As recently as May, the region had year-over-year deflation.) Core inflation, however, was still under 1% in December. January ended with Eurostat, the European Union's statistics agency, announcing Q4 euro area economic expansion of 0.5%, the best in three quarters.⁷

On January 17, U.K. Prime Minister Theresa May released a 12-point plan to invoke Article 50 of the EU Treaty and begin the Brexit process in March. A week later, the U.K.'s high court ruled that Parliament had to vote to permit this. Assuming Parliament greenlights the plan, the precise terms of the Brexit must still be determined, and Parliament must vote on them as well. Parliamentary approval of those terms would mean a softer Brexit; parliamentary disapproval would mean a hard Brexit, with the U.K. having to renegotiate trade deals, treaties, and immigration laws with other European nations.⁸

America's departure from the Trans-Pacific Partnership could be a boon for China, and it may also significantly impact the economies of other Asian nations. The economy of the P.R.C., which grew at the slowest pace in a quarter-century in 2016, could presently benefit from the adoption of the 16-nation Regional Comprehensive Economic Partnership treaty, a TPP alternative that excludes the U.S. If America puts protectionist measures into place, increased trade with China would help the economies of Indonesia, Malaysia, Vietnam, Thailand, and the Philippines, which all send 10% or more of their exports here.^{9,10}

WORLD MARKETS

Key emerging market benchmarks had declined in the weeks after Donald Trump's presidential election victory, but they rallied in January. India's Sensex added 3.87%; Argentina's Merval, 10.99%. South Korea's KOSPI gained 2.03%. Brazil's Bovespa was up 7.41% for the month. Hong Kong's Hang Seng improved 6.18%, while the MSCI Emerging Markets index rose 5.45%. As for China's Shanghai Composite, it gained 1.17%.^{11,12}

December brought major gains for the key European indices, but they mostly went sideways or negative in January. The FTSE Eurofirst 300 declined 0.49%. France's CAC 40 fell 2.33%; Russia's Micex, 0.69%; Great Britain's FTSE 100, 0.61%; and Spain's IBEX 35, 0.39%. Germany's DAX benchmark stood out with a 0.47% advance. To round out the global data, the MSCI World rose 2.35%; Canada's TSX Composite, 0.64%. Japan's Nikkei 225 lost 0.38%; Australia's All Ordinaries, 0.77%.^{11,12}

COMMODITIES MARKETS

In December, energy futures soared while metals stumbled; in January, the inverse occurred. Gold and silver, respectively, advanced 5.07% and 10.50% last month. That took gold to a January 31 settlement of \$1,209.80 on the COMEX, while silver closed out the month at \$17.57. Meanwhile, platinum gained 8.66%, and copper, 8.80%. January was also a fine month for ag futures: cocoa slipped 2.15%, but coffee rose 8.92%; corn, 2.35%; cotton, 4.94%; soybeans, 2.68%; sugar, 4.10%; and wheat, 1.77%.¹³

Across the energy patch, there were broad losses. Natural gas fell hardest, dropping 16.21%. Unleaded gasoline gave back 6.97%; heating oil, 4.75%; and light sweet

crude, 1.97%. Oil was at \$52.84 on the NYMEX when the closing bell rang on January 31. The U.S. Dollar Index slid 2.54% during the month to close at 99.60 as January ended.^{1,13}

REAL ESTATE

The latest reports from the Census Bureau and the National Association of Realtors showed that both new and existing home sales had retreated in December. The pace of new home buying tumbled 10.4% while resales fell 2.8%. The year-over-year numbers? New home sales rose 12.2% in 2016; resales, 0.7%. Why such a tiny increase in resales for 2016? Some prospective homeowners had a hard time finding anything suitable to buy as the year went on. The NAR said that the total existing home inventory in December was the smallest seen in this century. (In fact, inventory had shrunk 6.3% in 12 months.) Its report showed the median sale price of an existing home at \$232,200 in December.^{14,15}

Pending home sales did rise 1.6% for December after a 2.5% November fall, the NAR noted. The annual gain for the S&P/Case-Shiller home price index improved 0.2% in November to 5.3%. Housing starts rose 11.3% in December, while permits for new construction declined 0.2%, the Census Bureau stated.⁴

Another factoid from last year deserves mention. During 2016, interest on a conventional home loan averaged 3.65%, the lowest number recorded by Freddie Mac since it began tracking rates in 1971.¹⁴

In January, mortgage rates were notably higher than that – but as Freddie Mac data reveals, they still declined month-over-month. Between December 29 to January 26, the average interest rate on the 30-year FRM fell 0.13% to 4.19%. Average interest rates on the 15-year FRM and the 5/1-year ARM, respectively, decreased 0.15% and 0.10% over the same period to 3.40% and 3.20%.^{16,17}

LOOKING BACK...LOOKING FORWARD

The post-election rally fizzled as the month ended, leading to these January 31 closes: Dow Jones Industrial Average, 19,864.09; S&P 500, 2,278.87; Nasdaq Composite, 5,614.79; Russell 2000, 1,361.82. Unlike the big three, the Russell took a January loss, slipping 0.35%. The CBOE VIX was also a January loser, down 14.74% to a month-end close of 11.99. With a 16.36% January gain, the PHLX Gold/Silver index outperformed all other consequential U.S. indices.¹

% CHANGE	Y-T-D	1-YR CHG	5-YR AVG	10-YR AVG
DJIA	+0.51	+20.76	+11.45	+5.74
NASDAQ	+4.30	+21.52	+19.91	+12.79
S&P 500	+1.79	+17.51	+14.73	+5.84
REAL YIELD	1/31 RATE	1 YR AGO	5 YRS AGO	10 YRS AGO
10 YR TIPS	0.40%	0.57%	-0.28%	2.40%

Sources: barchart.com, bigcharts.com, treasury.gov – 1/31/17^{1,18,19,20}

Indices are unmanaged, do not incur fees or expenses, and cannot be invested into directly. These returns do not include dividends. 10-year TIPS real yield = projected return at maturity given expected inflation.

January ended with the bulls a little unsure of themselves. Wall Street and foreign stock markets reacted negatively. It is worth noting that stock market retreats have been common in the first February of a new presidency. The S&P 500 has had a median return of -1.47% in such Februaries over the last 50 years, advancing in only 42% of them. Then again, past performance is no guarantee of future results, and the six months from November to April traditionally trend bullish. If stocks do waver in February, it may not foretell how the market will behave for the rest of the year or even for March.²¹

UPCOMING ECONOMIC RELEASES: The list of major news items appearing across the balance of February: the January Labor Department jobs report, data on January factory orders, and the latest ISM service sector PMI (2/3), the preliminary

February University of Michigan consumer sentiment index (2/10), the January PPI (2/14), January industrial output and retail sales, plus the January CPI (2/15), January housing starts and building permits (2/16), January existing home sales (2/22), the final February University of Michigan consumer sentiment index and January new home sales (2/24), January capital goods orders and pending home sales (2/27), and the December S&P/Case-Shiller home price index, the Conference Board's monthly consumer confidence index, and the federal government's second estimate of Q4 growth (2/28). January personal spending figures and the January PCE price index will be released on March 1.

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The Korea Composite Stock Price Index or KOSPI is the major stock market index of South Korea, representing all common stocks traded on the Korea Exchange. The Bovespa Index is a gross total return index weighted by traded volume & is comprised of the most liquid stocks traded on the Sao Paulo Stock Exchange. The Hang Seng Index is a free float-adjusted market capitalization-weighted stock market index that is the main indicator of the overall market performance in Hong Kong. The MSCI Emerging Markets Index is a float-adjusted market capitalization index consisting of indices in more than 25 emerging economies. The SSE Composite Index is an index of all stocks (A shares and B shares) that are traded at the Shanghai Stock Exchange. The FTSE Eurofirst 300 measures the performance of Europe's largest 300 companies by market capitalization and covers 70% of Europe's market cap. The CAC-40 Index is a narrow-based, modified capitalization-weighted index of 40 companies listed on the Paris Bourse. The MICEX 10 Index (Russian: Индекс ММВБ10) is an unweighted price index that tracks the ten most liquid Russian stocks listed on MICEX-RTS in Moscow. The FTSE 100 Index is a share index of the 100 companies listed on the London Stock Exchange with the highest market capitalization. The IBEX 35 is the benchmark stock market index of the Bolsa de Madrid, Spain's principal stock exchange. The DAX 30 is a Blue Chip stock market index consisting of the 30 major German companies trading on the Frankfurt Stock Exchange. The MSCI World Index is a free-float weighted equity index that includes developed world markets, and does not include emerging markets. The S&P/TSX Composite Index is an index of the stock (equity) prices of the largest companies on the Toronto Stock Exchange (TSX) as measured by market capitalization. The Mexican Stock Exchange, commonly known as Mexican Bolsa, Mexbol, or BMV, is the only stock exchange in Mexico. Nikkei 225 (Ticker: ^N225) is a stock market index for the Tokyo Stock Exchange (TSE). The Nikkei average is the most watched index of Asian stocks. The All Ordinaries (XAO) is considered a total market barometer for the Australian stock market and contains the 500 largest ASX-listed companies by way of market capitalization. The US Dollar Index measures the performance of the U.S. dollar against a basket of six currencies. The Philadelphia Gold and Silver Index is an index of thirty precious metal mining companies that is traded on the Philadelphia Stock Exchange. Additional risks are associated with international investing, such as currency fluctuations, political and economic instability and differences in accounting standards. 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