THE PERSONAL WEALTH COACH®

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TPWC Market and Economic Update

The Markets

The market, represented by the Standard and Poor's 500 Stock Index (SPX) turned in a delightful 4.85% gain for the week ending November, closing at 2760.17. That still leaves it down 5.8% from its late September high but up 3.24% year-to-date. The consensus among traders appears to be that the potential for 25% tariffs will determine which direction it goes from here. If the tariffs are enacted, or appear to be coming, be prepared for a plunge. If peace is declared between China and the U.S. at the G-20 meeting this week, a rally is likely. The other wild card, how far the Federal Reserve will raise rates, is also on the table. Chairman Powell suggested that we are nearly to the neutral rate he wants to achieve, sparking a rally on Wednesday. Any sign that the end of increases is in sight will further encourage investors while signals of a long spell of interest rate hikes will drive things down. The future is, as usual, uncertain.

Speaking of interest rates, the U.S. Ten Year Treasury note ended the week by dropping below 3% to close at 2.992%. That decline is a vote of low confidence on the ability of the current economic expansion to maintain its momentum over the next few years. Once again one of the prime drivers in the interest rate decline was the potential for an all-out trade war between the U.S. and China. As economic risk rises, investors tend to buy Treasury securities, raising the price and driving down interest rates. Another factor pushing longer-term interest rates lower is the price of oil. West Texas Intermediate crude oil moved hardly at all this week but is down almost 20% over the last month and about 34% from its high in October. The President asked Saudi Arabia and Russia to increase oil production to offset the Iranian embargo and they did so, but the U.S. granted exemptions to the embargo that kept Iranian oil flowing. Thus, we have a global oversupply of oil with none of the producers willing to make cuts lest the others grab the market. Again, the potential 25% tariffs have buyers being cautious lest they be caught with a lot of oil and a slowing world economy.

The dollar remained nearly unchanged, up about 5.25% against a basket of world currencies and 7% against the Yuan, year-to-date. Gold was also nearly unchanged, still down about 8.25% this year.

The Economy

The steel and aluminum tariffs on U.S. imports finally began to bear fruit this week as General Motors (GM) announced plans to close several North American factories and lay off up to 14,800 workers. GM's reasoning was that the smaller automobiles made at those plants were being sold mainly to Chinese customers but with the increase in materials costs and the tariff-related rise in the dollar, were now more expensive to make in the U.S. than they could be sold for in China. In short, each car made in the U.S. for export to China was a net loss. Making the cars elsewhere would avoid the tariffs and the high dollar as well as save on labor costs. Other manufacturers have expressed concern that they may have to take similar actions to stay in business.

Another indicator flashed a warning for the third month in a row as new house sales and business investment continued to sag. Those declines were factors in Moody's Analytics forecast of a 4th quarter Annualized GDP growth dropping to a range of 2.5% to 2.7% and slower growth in 2019. Meanwhile, consumer spending was solid in October, rising at an annualized 3.2% rate while inflation appears to have subsided with the core personal consumption expenditure index (PCE) only up 1.8% from a year ago.

The Federal Reserve signaled loud and clear that another short-term interest rate rise was coming in December, raising the interbank rate from its current 2.25% upper limit to 2.5%. While the various speeches by the voting members of the Open Market Committee suggested a moderation in their earlier open-ended interest raise plan, it still looks like at least two more raises are in the works with a possibility of more. That would put the short-term rate at 3% or higher. Given the current, about 3%, 10-year rate, the dreaded inverted yield curve that commonly presages recessions could arise by mid-2019. Only time will tell but the economists' consensus opinion that a recession is in the works for some time around 2020 looks more and more likely to be an accurate call.

Until next week, we remain your faithful servants,

Jeffrey W. McClure CFP®
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