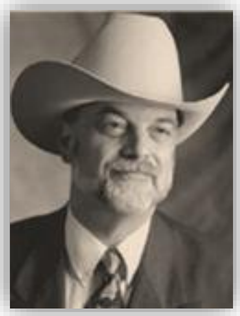

THE PERSONAL WEALTH COACH®

An SEC Registered Investment Adviser

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TPWC Market and Economic Update

The Markets

The Standard and Poor's 500 Stock Index (SPX), our preferred indicator for the whole stock market, closed on a cheery note, up for the week a whopping 2.81% at 2485.74. That upbeat note for the week obscures the fact that at the close on Monday, Christmas Eve, it had fallen to 2351 for its worst day before Christmas in its long and colorful history. More, with the SPX down 10% since the beginning of the month, the probabilities are that this will go on the records as the worst December since 11929. The good news, if one can see good in it, is that the Index is now only down about 15.2% from its high of 2930.75 back on September 20, which means that this is still a correction and does not rate the title of "bear market" so far. In another piece of record-breaking good news, the all-time largest rise in the Dow Jones Industrial Average, over 1,000 points, occurred on the day after Christmas. The record is not quite complete for 2018 with one market-day left, but year-to-date, the SPX is down 7.03%.

So, what are the reported causes of this market malaise? In a nutshell, it is future uncertainty. Markets are driven by perceived future corporate earnings and valuations. Much attention has been paid to rising interest rates but that has been factored into corporate earnings estimates for a year or more, so there is nothing surprising there that would cause a market decline of 15%. A potential 15% decline in corporate earnings does match the consensus estimate of the results of a full-fledged trade war with China along with a bit of seasoning from an ongoing government shut-down and the low but real probability of a Mexican border closure.

The ten-year U.S. Treasury note's yield, reflecting the bearish point of view, declined to 2.719%, 16.7% lower than it was in early October. Similar to the stock market swings, the longer-term view shows the bullish side with the yield still 12.7% higher than it was a year ago. A higher yield suggests greater growth ahead while a lower yield suggests a downturn. The bond market, in short, is bearish short-term but moderately bullish in the intermediate-term. U.S. crude oil closed at $45.07, down only about 8/10 of a percent for the week but it remains down about 40% from its recent highs. Gold rose 1.89% for the week but is down 4.15% for the year at about $1,283 per ounce. The dollar followed suit, with the WSJ dollar Index down about half a percent for the week but up 4.63% for the year and is about where it was three years ago.

To summarize, for the near future, the market appears to be in the hands of the President. If he follows through on his threats, a bear market is at hand. If he opts for a better economy over his trade and border demands, then the market is cheap, and a further reach of this secular bull market is very likely in 2019.

The Economy

Much of the economic data we rely on to check the health of the system is blacked out with the government shutdown, so we need to focus on what we do know. First, all reports so far are suggesting that this Christmas shopping season was both the largest and most profitable in history, up 5.1% from last year. If we consider that consumer purchases make up about 70% of our gross domestic product (GDP) then a surge in consumer spending is a good sign that the party is not over. Still, the Conference Board's index of consumer confidence did decline to 128.1 from its October record high level of 137.9. 128 is still healthy and indicates expansion, but as with oil, the stock market, and a host of other indicators, the cycle looks more and more like it hit a peak back in October of 2018. At the same time, jobless claims ticked downward and unemployment remains the lowest since 1969. The dark lining to that silver cloud is that durable goods orders, excluding military orders, at U.S. factories have been very slowly declining over the past few months.

The Federal Reserve Board (which is not shut down) revised their estimate of 2019 GDP growth down to 2.3% from September's estimate of 2.5% but leaving this year's estimate at an even 3.0%. Its official release also projected the average expected short-term interest rates to be around 3.2% by this time next year. Note the current 10-year U.S. Treasury note yield reported above and it becomes clear that unless longer-term rates rise quite a lot over the next six months or so, shorter-term interest rates will be higher than those at longer maturities. That is an inverted yield curve, a fairly reliable precursor to a recession six months to a year later. While a recession is a possibility in 2020, the current economy continues to be strong with record spending, sales, and earnings.

Until next week, we remain your faithful servants,

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

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