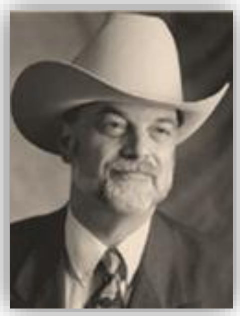

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TPWC Market and Economic Update

The Markets

Our old indexing friend, the S&P 500 Stock Index ended the week up 1.86% closing at 2531.94. Lest you get too excited, it is still down 12.26% for the trailing three months, -7.70% from a year ago and an impressive -13.6% from its high in September. Just in case there are those who blame the Federal Reserve for the market slide, Chairman Powell's remarks today suggesting that the Fed may not raise interest rates further bumped up the market by about half a percent. That leaves the other 13% to some other cause. The consensus of analysts' opinion remains that the trade war with China and the rest of the world combined with the uncertainty created by the government agency shutdown are the leading culprits here.

The S&P 500 forward price-to-earnings ratio has now dropped to around 14 from a high of around 18 back at the market peak, taking it from a level in line with its long-term averages to one that suggests a significant undervaluation. Citibank and Abby Joseph Cohen, both historically accurate market forecasters, indicated that they expected a stock rally this year that would add 14% to 17% to the market's valuation.

The ten-year U.S. Treasury note yield continued to decline, ending the week at 2.662%, only 0.29 points above the 2.375% short-term interbank rate set by the Fed. Meanwhile, the 4 and 5-year Treasury notes were yielding less than the Fed rate, resulting in a partially inverted yield curve. In essence, the bond market is of the opinion that somewhere 2-5 years in the future interest rates will be lower and the economy slower than today, but ten years hence rates will be higher.

U.S. Crude Oil rose 6.87% to $48.23 in another positive for the market's view of the near future. Gold continued its mini-rise, increasing 0.27% to $1,286.80 but is still down almost 5% from a year ago. The dollar (WSJ Index) closed down 0.54% for the week at 89.48 against a basket of world currencies. At the same time, it remains up about 4.42% from a year ago.

The Economy

The week's big economic news was that the Labor Department, one of the federal branches still running, announced the U.S. economy added 312,000 new jobs in December. That puts the job-adding streak at 99 months, the longest series of months the U.S. has added jobs without a loss since records have been kept. More, the Labor Department release also increased the numbers from October and November. Those new figures bring the 2018 new hire total to 2.64 million. Better yet, manufacturers added 32,000 jobs last month bringing the 2018 number of new manufacturing jobs to 284,000, the biggest increase since 1997.

Considering that we only need add between 80,000 and 100,000 jobs each month to keep up with new employees entering the market, it could be a bit disconcerting to also see the announcement that the unemployment rate rose from 3.6% to 3.9%. The cause, according to the report, was that about 400,000 new people entered the job market in December. A large part of those job entrees appear to be students who left the workforce a couple of years ago for further or new education and are now returning, often to seek a better paying new career.

With the Commerce Department largely off-line in the shutdown, we have to turn to private data providers to discover other news and one of those sources seems to be contradictory. The Institute for Supply Management ("ISM") announced on the third that its manufacturing index dropped 59.3 in November to 54.1 in December. The good news was that anything above 50 indicates growth and this is the 116th month above that number. The not-so-good news is that this marks the largest drop in the history of the Index. The respondents to the ISM survey generally blamed tariffs and the threats of tariffs for declining growth with warnings that things might get worse in the future.

Last but not least, the consensus we are seeing from reputable economists is that the U.S. economic growth should continue through 2019 but with a reduced annualized rate tapering down to around 1% in the final months of 2019. The consensus is also that we face a fairly high probability of a recession, not in 2019 as many fear, but later, in 2020. Only time will tell.

Until next week we remain your (mostly) fearless analysts, portfolio managers, and advisors,

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