THE PERSONAL WEALTH COACH®

An SEC Registered Investment Adviser

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TPWC Market and Economic Update

The Markets

The S&P 500 Stock Index (SPX) continued its long, slow, slog of recovery following the sell-off in December, closing out the week up 2.54% to 2596.26. That rise still leaves it down about 11.4% from its late September high point and down nearly 7% from this time last year. The good news is that the SPX has risen about 10.4% since its bottom on December 24. The bulls and the bears are still struggling and the key to the outcome remains the specter of uncertainty surrounding the government shutdown and the trade war.

The U.S. ten-year Treasury note ended the week yielding 2.692%, up a bit from the beginning of the year but down 0.54% from three months ago. The sag in the yield curve continued to predict that between two and five years from now interest rates, and by inference, the economy will be lower and slower. It is hard to get excited about a rise in oil prices as that means gasoline prices will rise as well but there was a collective sigh of relief as U.S. Crude Oil rose nearly 7% to $51.69 per barrel. Unfortunately, it is still down over 27% from three months ago and about 14% from last January. Meanwhile, lumber prices continued to fall from last May's peak of $639 per 1,000 board feet to a recent $329. Falling commodity prices and lower future interest rates are worrying signs that a recession could be in the works for a year or so from now. Gold was no haven as it remained down about 6% from a year ago although it did rise 0.19% to $1,288.60 for the week.

The Economy

The Commerce Department, where we, the Federal Reserve, and many economists get much of the data needed to estimate where the national economy is headed remains closed, but the Labor Department is open and still broadcasting statistics and the information looks good. First, inflation from this time last year is only up 1.9% overall while wages are up about 3%, giving workers a head start. That low inflation number gives the Federal Reserve cover to skip the next round of rate increases, keeping interest rates low. Speaking of the Federal Reserve, Chairman Powell has indicated in the past several days that the Fed may not increase rates the two times that were widely expected from his earlier comments. Rates are currently set at 2.25% to 2.5% and have hovered between the two numbers. One of the worry points for the stock and bond markets has been that the Fed would over-react and keep raising short term rates even as this economic expansion is maturing. Chairman Powell's remarks seem to have taken the edge off of that worry.

Another statistic that came out of the Labor Department was a validation of the criticality of a college or university degree. Wages are indeed rising, but wages for those with a college education are leading the way. Many workers who do not have a degree are seeing stagnant pay even in this worker-shortage economy. That absence of wage increases is compounded by the issue that a significant number of no-degree jobs are threatened by automation in the next ten years.

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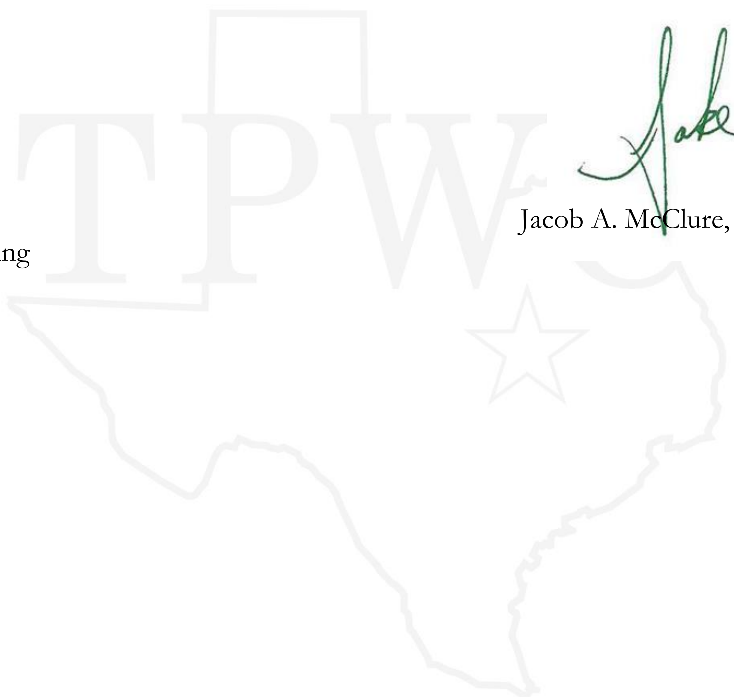
Another warning flag of a future recession popped up as the German economy appears to be continuing to contract into the fourth quarter after shrinking 2/10 of a percent in the third. The cause appears to be a decline in exports as China's economic growth slows and the U.S. tariffs make German exports to us more expensive. Here in the U.S., we may fret over the low percentage of our economy generated by exports, but it also means that we are far more self-reliant than countries like China and Germany that are dependent on exports to keep things on track.

The Wall Street Journal released the results from its latest survey of economists and while the survey indicated only a 25% chance of recession this year (up from 13% in the October survey), 57% of the surveyed economists think 2020 will bring one while 27% think a recession is likely in 2021. The consensus remains that a recession is coming and the only disagreement is about when it will arrive. The deeper fear, and the one reflected in the market, is that a sudden shock, like the imposition of the threatened tariffs, could put us in recession sooner. Compounding their concern is the absence of critical economic data from the Commerce Department and a general concern about the instability reflected in the government shutdown.

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



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