# THE PERSONAL WEALTH COACH®

**An SEC Registered Investment Adviser**

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**TPWC Market and Economic Update**

## The Markets

The U.S. stock market, as represented by the S&P 500 Stock Index (SPX) again put in a good performance for the week ending 1/18, rising 2.87% to 2670.71. That rise puts the Index up 10.51% from where it was a month ago but still down 8.9% from its high last September and about 5% lower than it was this time last year. This week's rise was almost universally credited to rumors that U.S.-China trade talks were making progress and the threatened 25% tariffs on Chinese imports were less likely. A note of caution is in order here as there is a growing consensus among economists and stock analysts that if the tariffs were to be enacted it would be "disastrous" to both the economy and the markets and the "good news" so far has been focused on rumor rather than fact.

Reflecting the improved future estimates for the economy, the yield on the 10-year U.S. Treasury note rose to 2.787%, up 11.7 basis points but remains nearly 38 basis points below where it was three months ago. (A basis point is 1/100 of one percent.) The Treasury yield curve remains slightly inverted between 5 and 10 years, but the sag in the middle has been shrinking since news improved on a possible end to the trade war. U.S. Crude Oil closed out the week at $53.80, up about 4%, again reflecting increased hope for a better future in international trade. Gold, in its common mirroring of the dollar, fell about 0.6% to $1,280.80, down about 5.5% for 12 months as the dollar rose about 0.57% for the week and about 6% from a year ago.

## The Economy

Evidence continues to mount that economic growth in the U.S. peaked in the mid-summer of 2018 and has been slowly coasting downward since. The Commerce Department's Bureau of Economic Analysis is closed with the shutdown, but private economists are suggesting 2018's GDP growth will be eventually posted at about 3.00%. There is a consensus that 2019 will be a year of growth but at a much slower rate, finally totaling between 2% and 2.5%. The general agreement continues to exist that if the Administration enacts the 25% tariffs on Chinese imports, American businesses and consumers will feel enough pain that we could enter a recession shortly after the imposition of those tariffs. The most current surveys suggest that there is about a 1 in 3 chance that will happen but about a 60% chance a recession will start in 2020.

U.S industrial production rose 1.1% in December even as exports sagged. That indicates that our domestic economy continues to generate more monthly demand than is lost as the trade war progresses. The lion's share of the gain was in automobile production at the end of the year. The rise in automobile production obscured declines in other industries like utilities output, down 6.3%. More worrying was the fact that the new orders growth rate declined to near zero and factories reported that their backlog of orders was shrinking. The problem with that high production growth is that by all historical standards our domestic economy continues to grow at a rate that is unsustainable. The Fed puts the manufacturing capacity utilization in the U.S. at about 79%. Somewhere around 80%

has historically been where bottlenecks have made themselves known, creating excesses in some areas that lead to the beginning of the slowdowns that start recessions.

In another relatively unanticipated oddity, China's trade surplus with the U.S. was $323 billion in 2018, 17% higher than 2017 and setting a new record. The record imports from China were largely credited to the U.S. tax-cut stimulus passed a year ago and occurred in spite of the tariffs imposed by the Trump administration. In an ironic reversal, the tariffs appear to have had a part in the slowing of China's domestic demand, which in turn led manufacturers in China to lower their prices, creating a bargain for American buyers, and a record set of imports. In yet another oddity, China's trade surplus with the rest of the world fell in 2018 while the surplus with the U.S. rose. Economics may be the dismal science, but thinking it is "simple' is generally a mistake!

In another counter-intuitive result, the business investment boom that was anticipated by those who favored the tax-cut bill does not appear to have appeared. Yes, the cuts did result in higher corporate profit margins, but after a surge that lasted about three months, business investment in capital goods and plant improvements has tapered off to a level at or below that of 2017. The reason appears to be that businesses are not interested in investing in capital goods when there is a critical labor and transportation shortage that would negate the investment's profit potential. Indeed, there were capital investments in 2018, and some of them large, but the companies surveyed reported that they had planned those moves before the tax cut and would have made them anyway.

Until next week we remain staunchly at the helm as the economy takes us into heretofore uncharted territory.

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