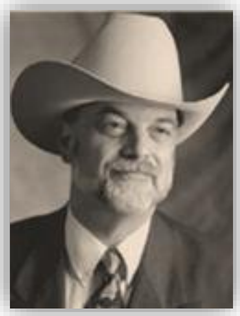

THE PERSONAL WEALTH COACH®

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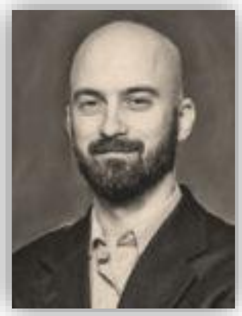

January 25, 2019

TPWC Market and Economic Update

The Markets

With all the drama and rumors circulating, it would be reasonable to think the stock market would have been either up or down more than a little for the week ending January 25, but the S&P 500 Stock Index (SPX) moved hardly at all from the previous week, declining 0.22% to 2664.76. Still, it is up 7.2% from a month ago, although down 7.24% from this date in 2018. It did hit a low for the week around 2614 as the Senate rejected both forms of government restart then returned to its starting point on news that there may be a compromise pending, so the government shutdown appears to be worth about 2%. The rest of the negative valuation still seems to be from the threatened tariff increases. It is worth remembering that corporate earnings were up about 22% in the last year while the market declined about 7% with the effective high point for 2018 occurring just before the trade war commenced.

The yield of the benchmark 10-year U.S. Treasury note inched up about 5/100 of one percent to 2.759%, far below October's optimistic 3.26%, indicating the bond market still has a less than rosy view of the future but the sag in the middle of the yield curve appears to be flattening out. U.S. Crude Oil, like the stock market, was largely unchanged, declining 0.81% to $53.55. In an oddity, gold prices jumped about 1.75% at the end of the week as the chances for the end to the shutdown appeared, closing at $1,308.40. The increase leaves gold down 6.46% for one year.

The Economy

Kevin Hassett, the President's chief economist, warned that the U.S. economy may not grow at all in the first quarter and he put the primary blame on the government shutdown. The key element is investor and consumer confidence on which the shutdown appears to be having a sizable impact. As we write this, news has been posted that the President and Congress may be on the verge of an agreement to temporarily end the shutdown but the administration's warning that the restart may be very temporary is unlikely to restore confidence. Private economists are forecasting a 1.5% annualized GDP growth rate in the first quarter, but they are navigating in at least a partial fog as the closure of the Commerce Department has deprived them of critical economic data.

Meanwhile, the Conference Board estimated its Index of Leading Economic Indicators (LEI) declined 0.1% in December. Once again, the Board warned that the estimate may be inaccurate because of missing government data. The LEI declined in October, then rose in November. Historically, it takes three consecutive months of decline to signal an approaching recession. What was clear was that home sales posted a steep fall in December, down 6.4% from November and 10.3% from a year earlier. At the same time, the University of Michigan consumer confidence survey declined to the lowest point since October 2016 and survey comments suggested that another decline was likely in January. The LEI may have slipped but the Coincident Economic Index for the U.S. increased 0.2% and the lagging index rose 0.5% confirming that we had a good 4th quarter, at least in relative terms. We won't know the rate of GDP growth in that quarter until the Bureau of Economic Analysis at the Commerce Department is reopened and the BEA workers have had time to gather and analyze the data.

Growth may be leveling off with the future uncertain here in the United States, but another clear fact is that the European Union is teetering back toward recession. Italy's economy is likely already down for two quarters, the definition of a recession, while Germany may barely escape the second quarter of contraction. There is an old saying in post-WWII economics, "When the U.S. sneezes, the rest of the world catches pneumonia." The reverse is also, to some degree, true. While the U.S. is the most self-reliant of the major developed economies, with only about 12% of our GDP resulting from exports, a major economic decline globally could easily shave several points off our GDP. With a consensus of economists estimating only 2% to 2.5% growth in the U.S. GDP for 2019, a couple of points could bring us to zero. A majority of those economists are now forecasting a recession in 2020.

The good news is that removal of the government shutdown coupled with the end of the threat of 25% tariffs on Chinese imports and a retraction of the 25% tariffs on steel could propel the economy to a burst of growth in 2019. We normally say that politics have little to do with economic growth, but 2019 may well be the exception to that rule.

Until next week we remain ever vigilant, pouring over reams of economic minutiae in search of the key to ideal portfolio advice.

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