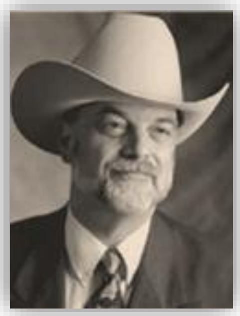

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TPWC Market and Economic Update

The Markets

In another week of bad news and good news, the S&P 500 managed to eke out a gain of 0.62% to close at 2792.67. There was plenty of economic bad news but with each new release, another tweet or rumor out of the White House about a possible end to the nascent trade war offset the downturn. That pattern tends to confirm the thesis that tariffs, both existing and threatened, are holding market values down. The week's small rise has generated an 11.40% gain year to date and puts the Index up 1.65% from a year ago but still leaves it down over 5.7% from its high last year.

The ten-year U.S. Treasury note yield also eked out a tiny gain of 2.3 basis points (hundredths of a percent) for the week to a 2.655% yield. As we have written before, early last quarter the note was yielding 3.2% but a souring outlook for the trade war dropped the yield. The Treasury yield curve remains fairly flat out to five years while the dip between two and five years continues to suggest that the bond market anticipates a slower economy a year or two from now, but is optimistic about 5 years and beyond. Oil futures climbed another 1.76% to $57.19, largely based on optimism for a thaw in the U.S.-China trade war. Gold closed at $1,330.70, up 0.43% but still down almost 3% from a year ago.

The Economy

We have often commented on business orders for durable goods as a barometer for our economic future. The Commerce Department, in a government shutdown-delayed announcement, let us know that net, adjusted business investment in durable equipment declined 0.7% in December, the fourth decline since August of last year. December's year-over-year investment growth was only 2.5%, contrasting sharply with a 13.5% trailing one-year investment growth as recently as last August. Deeper in the report the numbers looked even starker. Orders for communications equipment were down 5% and primary metals and machinery orders were down a like amount. The survey respondents cited the usual list of issues, personnel shortages, transportation restrictions, and the threats of a supply-chain disruption from tariffs.

Adding to the gloom, U.S. existing home sales declined 1.2% in January and factory output unexpectedly contracted 0.6%. At the same time, unemployment claims fell 23,000 for the week but the four-week moving average of claims rose to the highest level since January of last year. Quite importantly, the Conference Board's Index of Leading Economic Indicators decreased slightly in January bringing the six-month growth in the Index to a mere 0.8%. If we exclude the volatile transportation numbers, durable goods orders increased an anemic 0.1% in December with core capital shipments only up 0.5%.

Once again, the numbers are coming out with about a one-month delay because of the 35-day government shutdown so we are still largely in the dark about economic activity in January. By now we normally would have the first estimate of the fourth-quarter and full-year GDP growth for 2018. Moody's Analytics has dropped their fourth-quarter estimate to an annualized 1.7% growth for the quarter while the Atlanta Federal Reserve Bank is estimating 1.5%.

All those numbers continue to indicate that we have reached a plateau in U.S. economic growth with the Leading Economic Indicators, perhaps the most visible sign, bobbing up and down for several months. We appear to remain on the edge of either an economic second wind or a sag into recession. Also unchanged is the assessment that imposition of the threatened 25% tariffs on both Chinese imports and European auto imports would probably tip the U.S. and world economies into recession while removal of that threat and the elimination of all the tariffs imposed since early 2018 could extend economic growth well into next year.

Finally, the imminent threat of a hard Brexit is an unknown that might have profound effects on the world and U.S. economy. The uncertainties and threats generated by an increasingly anti-global series of political moves are clearly having a negative effect on potential growth. Hope remains though that U.S. and U.K. leaders may yet recognize that trade wars and isolationist nationalism are big negatives to all concerned and will reverse their policies.

Until next week, we remain watchful and despite the dismal nature of our profession, guardedly optimistic.

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