THE PERSONAL WEALTH COACH®

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TPWC Market and Economic Update

The Markets

Despite a healthy runup until Friday morning dawned, the S&P 500 Stock Index, our preferred indicator of U.S. equity markets value, lost 0.77% to close at 2800.71 on the 22nd. It remains up almost 12% year to date and is now up 8.21% from a year ago but down about 4.4% from last September's highs. The nearly 2% market plunge on Friday was widely credited to a report that Eurozone ("EZ") factory output fell at the fastest rate in six years, following last week's news that U.S. manufacturing output did the same. There is confusion in the ranks as to whether we are in the last leg of a bull market or the early stages of a bear, and the struggle between the two positions is showing.

The U.S. 10-year Treasury note yield, the benchmark for loans and bonds in general, declined about 0.20% for the week to close Friday yielding 2.44%. Considering that the 1-month T-Bill yields 2.49%, the ten-year interest rate curve is now inverted. More ominously, the 2 and 5-year note yields are down to around 2.34%, producing an even more negative curve out to 7 years. Over the past several decades, an inverted yield curve that stays that way has been followed by a recession within the next one to two years.

West Texas Intermediate Crude oil failed to join in the bear rush and closed up 0.19% at $58.85. Gold was up less than 1% for the week but remains down over 5% for one year. The dollar has remained fairly constant for the past several months but is up 7.6% from a year ago, largely offsetting the 10% tariffs on many Chinese imports.

The Economy

The EZ Manufacturing Purchasing Managers Index (PMI) fell from 49.3 in February to 47.6 in March. In that index, numbers above 50 indicate growth while those below 50 indicate a decline. Compounding the reading's negativity, Germany's numbers, normally the strongest in the EZ, fell the fastest. PMI numbers are considered predictive of what will happen to the actual manufacturing activity over the next several months. By themselves, the EZ PMI numbers would be worrisome but when combined with the February shrinkage in U.S. manufacturing output we reported last week, it creates some alarm.

During the week, the news out of the Federal Reserve was that short-term interest rates are on hold as data suggests that the U.S. and global economic growth rates are slowing and could stall out. That announcement was followed on Thursday evening by government-shutdown delayed news that fourth quarter 2018 services revenue rose only 1.2%, considerably less than had been estimated. Economists surveyed by the Wall Street Journal are now in consensus that 1st quarter U.S. annualized GDP will be in the 1% range. About half the surveyed economists expected a recession to start in 2020 while a third say 2021. They agree that the economy is at or near its peak and running faster than is sustainable and that a relatively mild event, like increased tariffs, could trigger a recession sooner. Notably, the reverse is also likely true, removal of tariffs could generate an impressive rally.

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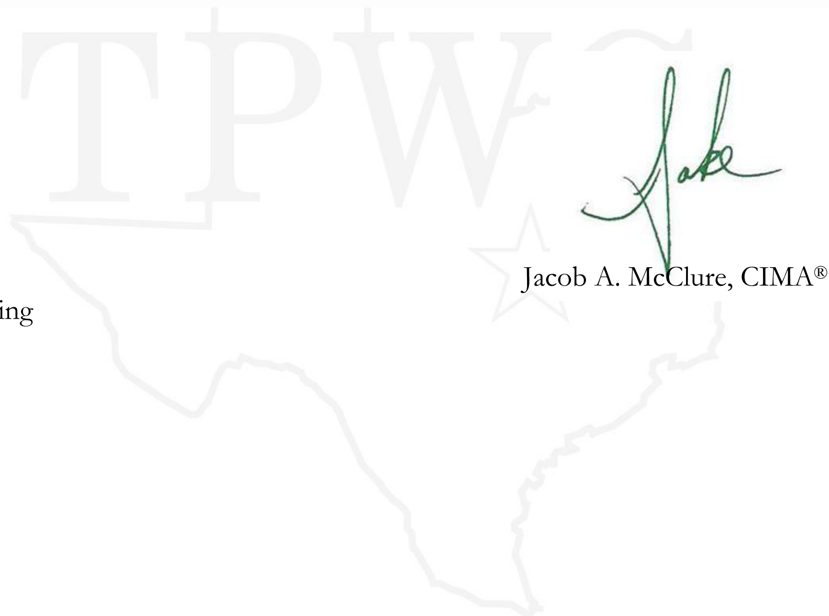
All that gloom and doom has a, to us, interesting offset. The Conference Board's Index of Leading Economic Indicators (LEI) increased for the first time since September 2018! It was only up 0.2% but after a series of small negatives interrupted by flat growth in other months, even a small positive is welcome. Admittedly the six-month annualized average for the LEI has declined from 5.1% a year ago to 1.1% now, but it is still positive. At the same time, the Coincident Economic Index rose 0.2% and the Lagging Index was flat. Historically, the LEI has declined for several months in a row before a recession and we have not had a recession until it does.

A summary of where we are in the economic cycle was stated so eloquently by Federal Reserve Chairman, Jerome Powell that it is worth quoting. "I think we are in a good place right now. We're being patient, we're watching, we don't see any data pushing us to move rates in any direction. We're going to watch carefully and patiently to allow events to evolve. And when they do clarify, we will act appropriately." To which, we say, "Ditto!"

Speculation is out there that if the 10-year Treasury note yield descends below 2.40% the next move by the Fed may well be not only to avoid raising rates but it may start to lower them. All signs continue to point to a good chance for slowing expansion this year followed by economic consolidation sometime in 2020.

Until next week we remain your vigilant observers and analysts of things economic and investment-related.



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