THE PERSONAL WEALTH COACH®

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TPWC Market and Economic Update

The Markets

With all the noise and bad news for the week ending 5/17, it would be reasonable to expect to see a massive drop in the markets and that drop duly reflected in the S&P 500 Stock Index (SPX). Instead, what really happened was the Index declined a mere 0.76% and even for the trailing month it was only down 1.57%, closing at 2859.53. Admittedly it is still 2.4% below where it was last September but things easily could have been worse. The SPX remained up 5.4% from a year ago and is up a whopping 14% so far this year.

While the stock market showed some degree of moderation and even a glint of optimism for the week, the bond market, represented by the 10-year U.S. Treasury note was sounding the alarm bells. The 10-year note ended the week yielding 2.393%, down 12.7 basis points (hundreds of a percent). The alarm was that the 3-month Treasury bill was yielding 2.399%, putting the curve once more in an inverted position. The intermediate term notes dipped even further with the 3-year yield at around 2.1%, strongly signaling that the bond market anticipates an economic slowdown starting as soon as next year.

West Texas Crude ended the week having eked out a 1.59% gain to $62.68. The black stuff is up over 32% for this calendar year but down over 5% from last May. The dollar continued its relentless climb, up 0.72% on the WSJ Dollar Index to 98.02, and up 1.38% against the Chinese Yuan. Critically in the trade war, the dollar has risen about 8.5% against the yuan, offsetting the 10% tariffs and shows every sign of rising to offset higher tariffs if and when they go into effect.

The Economy

Once again trade wars and rumors of trade wars dominated the economic news. Last week's announcement of 25% tariffs against many Chinese imports with warnings of an across-the-board 25% toll on all Chinese imports continued to reverberate as China announced counter-tariffs. Toward the end of the week, the news that the tariffs on steel and aluminum from Mexico and Canada were going to be lifted provided some degree of counter-balance as did the administration's notice that it would hold off on a 25% tariff on EU automobiles for six months. In response, the Dow Jones Industrial Average and the SPX turned in their biggest one-day losses since January 3 on Monday but gradually nearly recovered over the rest of the week.

The stock market reflected the economic crosswinds that could result in a strong economic performance for the rest of the year or bring us closer to a recession. Walmart announced that sales were up 3.4% in the first quarter, boosted by a strong online showing. That was the exception for retailers as overall spending at stores and shops declined in April by 0.2% after zig-zagging through the first quarter. Retail sales remain up about 3% for the trailing 12 months. The Conference Board's Index of Leading Economic Indicators sounded a positive note as it rose 0.2% in April, following a 0.3% gain in March and a 0.2% rise in February. Taken together, those numbers strongly suggest the next six months to one-year are likely to be recession-free.

On the other side of the scale, utility output dropped 3.5% in April. That was accompanied by a 0.5% decline in manufacturing output for the month, compounding an average decline of about 0.4% per month in the first quarter. Manufacturing output is a relatively small portion of the overall U.S. economy but has proven in the past to be a bellwether indicator. New housing starts were a bright spot in April, rising 5.7% but failed to offset the 7% decline in the first quarter.

In a view of the bigger picture, information is accumulating that the 3.2% annualized GDP growth in the first quarter was largely generated by businesses stockpiling goods in anticipation of tariffs. If so, then the slowdown we are seeing in the first month of the second quarter makes sense as companies stop building up inventories. The consensus for second quarter U.S. annualized GDP is now running about 1.8% to 2% with the potential for a slower growth rate in the following quarters.

The bottom line remains the same. If the trade wars take on a worst-case scenario, things could get quite unpleasant in about a year but if the tariffs are dropped and the trade wars with the EU and China are ended, we still could get quite a good growth and market gain this year.

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

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