THE PERSONAL WEALTH COACH®

An SEC Registered Investment Adviser

Jeffrey W McClure CFP® — *Jacob A McClure* CIMA®

PO Box 1029 / 918 N. Main Street
Salado, TX 76571

(254) 947-1111
(800) 914-7526

Serving Investors Since 1982

www.tpwc.com

jeff@tpwc.com — jake@tpwc.com

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TPWC Market and Economic Update

The Markets

With all the headlines it would be understandable to expect to see a wild ride in the market for the week ending 6/14, but the reality is much less exciting. The S&P 500 Stock Index (SPX), our preferred market indicator, managed to rise a mere 0.47% for the week and remains up only 3.86% from a year ago, at 2886.98. It remains well below its May 1 high of 2954 and below where it was at the end of September. This bull market is now ten years and one month old, making it either the longest running or second longest running bull in history, depending on whether you consider the 1990 market swoon to be a bear or just a correction.

The benchmark 10-year U.S. Treasury note yield fell another 4.8 basis points to 2.082% for the week, further exacerbating the yield curve inversion that traditionally precedes a recession. The 3-month T-bill rate remained significantly higher at 2.212%. Intermediate maturities dropped down to the 1.7% to 1.8% range, continuing to confirm the bond market's forecast of an economic slowdown coming in the next couple of years. West Texas Crude Oil declined 2.89% to $52.47 despite news of attacks on tankers in the Strait of Hormuz, putting the price down about 18.5% for one year. The downward trend in oil prices was widely credited to a slowing international economy

The Economy

In a dose of good news, the most powerful force in the U.S. economy, the consumer, flexed its muscles this week as May's retail sales were reported by the Commerce Department as having risen a seasonally adjusted 0.5% from April. In the same report, the Department revised April's 0.2% decline to an increase of 0.3%. Those numbers are lagging indicators though while a leading indicator, the University of Michigan's Consumer Confidence Index dropped from a reading of 100 in May to 97.9 in early June.

Another breath of good news appeared in the news that U.S. Industrial Production rose 0.4% in May after sinking 0.4% in April. The month's rise in output failed to reverse the fact that manufacturing remains down an average of 0.4% per month so far this year. Capacity utilization, a measure of how much we are producing compared with our theoretical capacity, rose to 78.1% in May, a level about where the U.S. economy normally tops out. The good news was tempered by the realization that industrial production in the United States is only up 0.2% from this time last year. That number is surprising to some because there was an anticipation that the corporate tax cuts that went into effect at the beginning of last year would create more business investment and greater industrial output in the one to two years following. Capital business investment has been trending downward since October of last year defying that prediction. The one thing that has clearly come out of the tax cuts is that the federal deficit so far this year is running about 40% above where it was last year.

In a series of numbers and ratios that only an economist could love, we noted that business inventories continued to rise at both the retail and wholesale level. Rising inventories mean that at least part of domestic economic growth is being generated by companies buying more stock to sell than there are sales to consumers. Reports from those companies suggest that the buildup is a reaction to the fear of future tariff-related price increases. The problem with inventory buildup is that eventually the excess inventory must be reduced, and at that point, commercial purchases will slow down.

Overall, the current state of the U.S. economy remains strong and running at about its maximum capacity. Hiring has slowed but it seems likely that is because we are finally running out of people to hire as the job openings continue to rise well above the number of unemployed. It is worth remembering that the new, higher tariffs on Chinese imported goods have not yet filtered through to show in the business statistics. The economic engine that is the United States is being well reflected in the stock market as things are good but not getting much better. The worrisome condition of the bond market is consistent with good times today but the potential for not-so-good times in a year or two.

We continue to see a better than 50% probability of a relatively mild cyclical recession arriving sometime in 2020 but a lot of uncertainty between now and then. We also see a high potential for a profound and sustained growth period following that recession as we journey into the 2020s.

Until next week we remain faithfully at the watch for economic storms and fair winds to speed us all along to our financial goals!

Jeffrey W. McClure CFP®
M.S. Personal Financial Planning

Jacob A. McClure, CIMA®