THE PERSONAL WEALTH COACH®

An SEC Registered Investment Adviser

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TPWC Market and Economic Update

The Markets

Our dear old favorite index, the S&P 500, put in a new record close on Thursday at 2954.18 and although it was down a bit on Friday was up for the week ending 6/21 at 2950.53, up 2.20% for the week in a repeat of last week's "bad news is good news" scenario. Before you get too terribly excited, that means that the market has risen less than one percent from where it was at the end of September 2018, nearly nine months ago. The rise this week was generally credited to hints from the Federal Reserve Board that it might be willing to lower interest rates at future meetings because economically, things weren't looking so good. The market does that at times, and those times generally coincide with the peaks in economic cycles.

The ten-year U.S. Treasury note, representing the bond market's economic opinion, had a different story to tell. During the day on the 20th, the 10-yr. yield dropped below 2% but then closed out the week at 2.060% on the news we weren't immediately going to war with Iran. Still, with the 90-day T-bill at 2.139%, the yield curve remains firmly inverted, as it has been for the last three weeks. Meanwhile, the 3-year yield is a depressing 1.72%, continuing to suggest a slower economy in a couple of years than we are seeing today.

In another "bad news is good" move, the price of West Texas Intermediate crude oil (WTI) rose 9.77% for the week to $57.65 on the danger of oil supply being restricted by a war in the Arabian Gulf. That still leaves WTI down about 17% from a year ago on weak demand. Gold spiked 4.27%, closing at $1,402.90 per ounce on that same potential for war. The rise in both oil and gold were assisted by a fall in the dollar of 1.41% in the WSJ Dollar Index.

The Economy

The headline economic news this week was that not much happened but there were suggestions that things might in the future. Mario Draghi, the Chairman of the European Central Bank (ECB) announced that even with negative interest rates in place, he thought the ECB might need to reinstate "quantitative easing" by buying bonds on the open market to lower interest rates even further. Then, the Federal Reserve Board announced that they were not going to change short-term rates for now but were open and willing to considering lowering them in the future.

It might be good to remember that only a few months ago the debate was whether the Fed was going to raise rates one, two, or three times in 2019. Since then they have cautiously backed off to something like neutral but this month indicated a willingness to downshift. That new policy was probably influenced at least in part by the fact that both the Fed's Empire State and Philadelphia manufacturing surveys dropped sharply in May to levels indicating near zero growth. Worse, the new-orders data in both surveys were negative. The surveyed companies uniformly blamed tariffs.

At this point, it is impossible to know how much of the observed slowing in the U.S. economic growth rate is a natural part of the economic cycle and how much is being generated by fear of tariffs, but the reduction in growth is real and appears to be trending toward an actual slowdown. Business confidence is now just above zero, indicating a limited optimism among corporate decision makers, but those same business leaders have closed their checkbooks as they wait to see what happens next before committing to any new investment. In the same spirit, hiring, while still positive, has slowed dramatically from last year.

In the midst of all the longer-term warning signs, the Conference Board released its monthly Index of Leading Economic Indicators (LEI) as unchanged from last month, or neutral, and that absence of bad news is sort-of good news. It matched the other data coming in, suggesting that things could go either way but that we were unlikely to have a recession start for at least six months. Employment, a lagging indicator, is still at a record high and the consumer is still spending at record levels but those drivers could turn suddenly. Even the consumer part of the economy issued a warning sign as new car sales have now been declining for five months and are 5.2% below last year as of the end of May.

The possibility of a resumption of the expansion is still possible but the fear of higher import prices and the uncertainty of sudden policy-changes has already produced a negative sentiment that will likely become harder to counter with each passing month. The historical signals are still suggesting a recession is probably in the cards for 2020, triggered largely by tariffs and fear of tariffs.

Until next week, we remain your faithful observers, analysts, and portfolio managers.

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