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THE PERSONAL WEALTH COACH[®]

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July 19, 2019

TPWC Market and Economic Update

The Markets

After hitting a record and crossing the psychologically important 3000-mark last week, the S&P 500 Stock Index, our favored benchmark for the stock market as a whole, declined in value 1.23% for the week ending on **July 19** to close at 2976.61. The market slowly dropped all week amid a flurry of less-than-optimal news from second-quarter earnings and suggestions that the Fed will limit its July interest rate cut to 0.25%. The market consensus last week was that a 0.50% cut was in the cards. That market decline dropped the 12-month return to 6.2% and the gain from the end of last September to a miserly 1.5%. In short, the stock market is pretty much where it was ten months ago.

One of the questions that have been raised by market analysts has concerned why the market was up at all since last October as corporate profits have declined and the economy is showing signs of stagnation. One answer that makes sense is that the corporate income tax savings enacted at the end of 2017 have largely not gone into new corporate investment but rather into share buy-backs. Looking at the data reveals that the earnings per share have not declined with real net earnings because there are fewer shares outstanding because publicly traded companies have been buying their shares back on the open market. Unfortunately, unless companies reinvest and create more profit, share buy-backs have proven historically to be only a short-term fix to a longer-term problem. Company executives have responded that with the uncertainty of potential high-tariffs sending the economy into a recession, long-term investing is unpalatable.

The 10-year U.S. Treasury note yield followed the stock market's lead, dropping 7 basis points (3.3%) from last week's reading to close at 2.056%. With the 90-day T-bill yielding 2.038%, the yield-curve is technically no longer inverted even though the two through five-year notes have yields in the 1.7% range. That combination signals a clear message of uncertainty. West Texas Crude joined in the dirge, closing the week at \$55.87 per barrel, down 7.34% despite fresh bad news from the Strait of Hormuz. Oil is down about 20% from a year ago and the major change has been a lower demand forecast as the world economic growth slows.

The Economy

June data continues to trickle in and most of it seems to confirm that we are, other than in consumer spending, neither growing nor shrinking. The Federal Reserve announced this week that U.S. industrial production was flat in June after increasing 0.4% in May. Industrial production is up 1.3% from last year but declined at a 1.2% annualized rate in the second quarter.

The Association of American Railroads (AAR) reported that rail freight volume is down 7.6% from June of last year. The AAR noted that rail volume in the U.S. reflects the same trend across the developed world and has been slowing since last October. Overall freight volume, including truck, rail, air, and barge, fell 5.3% in June compared with last year, despite an increase in oil transport volume of 23%. In another suggestion that things may be slowing, U.S. housing starts fell 0.9% in June from May. Meanwhile, residential building permits declined 6.1% from last year. Building permits are a leading indicator and a year-over-year drop typically precedes a recession by 10 to 12 months.

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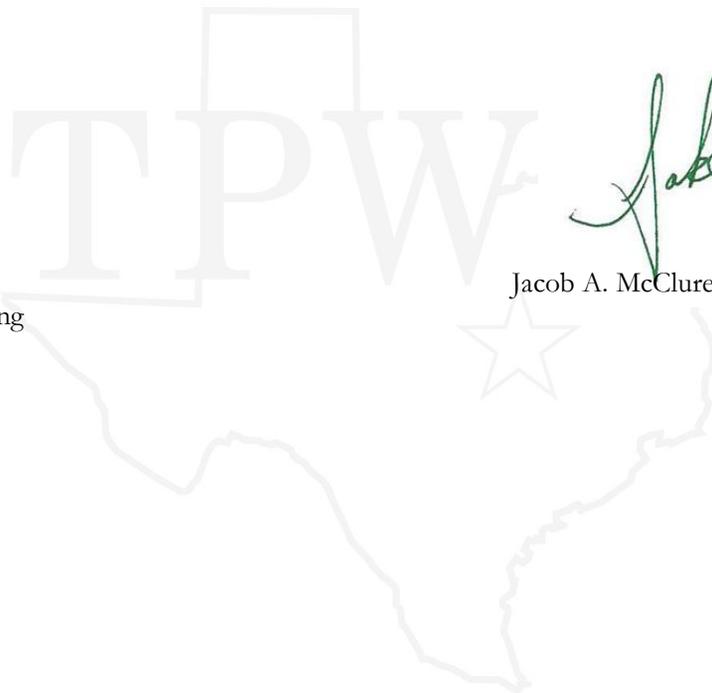
Retail sales, the main engine of the American economy, rose a seasonally adjusted 0.4% in June from the previous month and are up a solid 3.4% from a year ago. Even as production, transport, and other industrial statistics suggest we are entering a dangerous area of zero growth, the American consumer continues to spend freely. Some of the biggest gains were in activity at clothing stores, restaurants, and building-material supply stores. Because consumer spending is about 70% of the U.S. economy, Moody's Analytics is forecasting a second-quarter GDP annualized rate of growth of 1.7% rather than the flat-to-negative number that industrial data would suggest.

The Conference Board U.S. Leading Economic Index (LEI) declined 0.3% in June following no change in May and a 0.1% rise in April. So far, the indicators are not predictive of a recession so much as a slowing in growth. Recessions historically have followed when the LEI declines for three consecutive months or fall more than 1%. So far the warning flag is not up, but this economy bears watching.

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



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