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

July 26, 2019

TPWC Market and Economic Update

The Markets

The S&P 500 Stock Index turned in another record, closing out the week on July 26 at 3025.86, up 1.65% for the week and 7.35% since this time last year. This new record close puts the Index up 3.2% from last September and an average growth rate of 12% per year for the last three years.

The U.S. ten-year Treasury note ended the week yielding 2.072%, down 5.2 basis points and once again in an inverted position versus the 2.108% yield of 90-day T-Bill. The yield curve, one of the more reliable recession predictors, appears like the other data, somewhat uncertain about where we will be in 2020. The two-through-five-year T-note yields continue to reflect the bond market's pessimism about economic growth in the near future yielding in the 1.8% range. Crude oil opted out of the argument this week, rising a mere 0.79% to $56.17 but is still down nearly 20% from this time last year on weaker global demand.

The Economy

The headline news is about 2019's second-quarter GDP with the Commerce Department's advance estimate of an annualized growth rate of 2.1%. As we forecast, last quarter's 3.1% contained a hefty dose of inventory buildup that was not so much present in the second quarter. The main positives for second-quarter GDP growth were personal consumer spending and government spending. Inventory adjustment, exports, and business investment were negative numbers. Very notably the Personal Consumption Expenditure Price Index (PCE), perhaps the best indicator for real-world inflation, rose at a 2.3% annualized rate compared with 0.4% in the first quarter.

Those numbers confirm what we have been noticing in the anecdotal reports across the economy. Businesses are cutting back on investments both in equipment and buildings while consumers are ratcheting up spending and the government is on a spending spree. Personal consumption expenditures rose in the second quarter by a whopping 4.3%! That may not be an all-time record, but it is both very large and probably not sustainable. Fortunately, personal consumption gets a much heavier weighting because business investment was declining at a 5.5% annualized rate. Exports were dropping at a 5.2% rate, at least partly offset by government expenditures rising at a 5% rate. In short, our economy is being driven in two opposing directions with the consumer and government driving ahead, largely on borrowed money, and business investments and exports shrinking. As we have reported before, business decision-makers are consistently reporting that the reason for the lack of investment is the uncertainty surrounding tariffs.

A little-noticed fact about the Commerce Department's GDP reports is that they are typically not finalized until at least six months after the end of a quarter. In Friday's report, the GDP growth rate for the fourth quarter of 2018 was revised from the advance estimate of 3.1% down to a more accurate 2.5%. That took the annual GDP growth rate for the first year of the tax cuts, 2018, down to 2.9%. The revisions also showed that the economy grew at 2.7% in 2017, before the tax cuts were in place. Those figures support what economists have been reporting, that the profit increases from the Tax Reduction and Jobs Act of 2017 were not invested in business growth as much as they were in stock buy-backs and increased cash holdings. Again, business leaders cited the threat of high tariffs as the reason.

Another longer-term indicator continued to suggest problems ahead as existing-home sales, which fell 1.7% in June and are now down 2.2% from last year have now been declining on an annualized basis for 16 consecutive months. Historically, the west coast had tended to lead on real estate trends, and home prices there declined in June for the first time since 2012 despite reduced mortgage interest rates. Zillow reported that most real-estate economists expect a recession in 2020.

The bottom line remains the same, consumers and the government are supporting growth on mainly borrowed money but even the consumer is beginning to hold back on major long-term purchases while businesses are hunkering down for a storm. The economy remains on the edge of growth or decline. If the tariff threat was removed, there is room to grow but the longer the uncertainty remains the more likely something will tip us into a recession.

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

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

Jacob A. McClure, CIMA®