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

August 23, 2019

TPWC Market and Economic Update

The Markets

The market week that ended Friday, August 23 was mostly the same as we have seen for some time with the S&P 500 Stock Index (SPX) meandering up and down in tenths of a percent but about 3% lower than it was last September; then the trade war started heating up. Late Friday, President Trump "ordered" U.S. companies to find other places to do business than in China and increased the level of tariffs on Chinese imports. The SPX almost immediately dropped 2.6% and was still on a downward trajectory as the markets closed on Friday. That decline left the SPX down 1.44% for the week and almost 6% for the last four weeks and from its high a month ago.

The yield on the 10-year Treasury note, which had been gradually working its way upward during the week on improved retail store earning reports, joined the stock market in heading for the storm cellar, dropping 21 basis points for the week to close out at 1.538%. With the benchmark 90-day T-bill sitting at 2% that drop intensified the inversion in the yield curve. At the end of the week, the 30-year U.S. Treasury bond was effectively yielding the same interest rate as the one-month Treasury note in an ominous relationship. West Texas Intermediate Crude joined in as well, dropping 1.75% to 53.97 and is now down over 21% from its price a year ago.

The Economy

We thought the big news this week would come out of the meeting of central bank chairmen and economists in Jackson Hole, instead, it is dominated by presidential tweets. President Trump announced late Friday, after the close of securities markets, that he was increasing tariffs on nearly all Chinese goods. He tweeted that he was raising the 25% tariffs to 30% beginning October 1 and on the goods previous to be hit with 10% tariffs on September 1 to 15%. His move, upping the ante, came after China imposed tariffs of between 5% and 10% on the remaining $75 billion of U.S. imports to China in retaliation for the President's imposition of new tariffs on about $300 billion of Chinese imports to the U.S.

The additional expenses generated by the tariffs and counter-tariffs may be sufficient to deter consumers from their recent spending spree that was the one bright light in an otherwise glum set of data emerging from the U.S. and world economies. From our perspective, one of the more unsettling reports was from the Markit Manufacturing Purchasing Managers Index as it fell from 50.4 in July to 49.9 in August. Previously, purchasing indexes had been declining but none had crossed the "50" level marking the delineation between a reduction in the rate of growth and an actual contraction or decline in orders.

While jobless claims remained muted and by historical standards quite low and unemployment has held steady at record lows, there were some worrisome indicators that have traditionally been "the canary in the coal mine" as they have been reliable predictors of future consumer trends. Existing home sales picked up a bit, but new home sales fell 12.8% in July from June despite the fact that mortgage interest rates are lower, and the median price has declined. More significant is the now three-month long decline in sales at appliance and electronics stores and in building supply stores. The fall in sales at electronics stores might be explained away as a shift to online purchasing, but the sustained slump in building supply and appliance purchases, despite a distinct fall in lumber and other related prices, suggests consumers are deferring spending and that is a strong leading indicator of a future downturn.

Information contained herein has been obtained from sources believed to be reliable but is not warranted as to accuracy or completeness. Past performance is no guarantee of future returns. For tax or legal issues consult with a qualified tax advisor or attorney. Investments when sold may be at a higher or lower price than when purchased. Refer to your custodial account statements for securities holdings and values.

Among the early indicators of a coming economic expansion or a pending contraction, one of the more reliable single data points is RV sales. Recreation vehicles are anything but a necessity for most people although there is a sizable portion of the RV market devoted to sales to oil field and other well-paid occupations where mobility is at a premium. As such, the new RV shipment change rate from year to year has historically been a reliable indicator of where the economy will be heading a year to eighteen months in advance. The RV Industry Association announced that total RV shipments as of June, the most recent month for which total data was available, declined 10.3% from June of 2018. Equally significant was the data in the report which showed the higher the price of the RV, the greater the year over year decline. Motorhome shipments declined 23% from last year.

The early warning signs of a potential recession in 2020 or 2021 continue to multiply and are increasing in severity while at the same time, the key elements that keep our economy running, employment and consumer spending, remain healthy, albeit with some signs of stress on the consumer side. We continue to watch, but the barometer is dropping and dark clouds are gathering on the horizon.

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

Jacob A. McClure, CIMA®

Information contained herein has been obtained from sources believed to be reliable but is not warranted as to accuracy or completeness. Past performance is no guarantee of future returns. For tax or legal issues consult with a qualified tax advisor or attorney. Investments when sold may be at a higher or lower price than when purchased. Refer to your custodial account statements for securities holdings and values.