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

September 20, 2019

TPWC Market and Economic Update

The Markets

Our Index of choice, the S&P 500 Stock Index (SPX) closed out the week ending September 20 with a tiny gain of 0.52% at 2992.07. While the index is up an impressive 19.34% year-to-date and 5% for the last month, it has only eked out about a 2% gain from this time last year. On Thursday, after the announcement that the Federal Reserve cut short term interest rates another 0.25%, it briefly soared to nearly 3020 but, as has been usual over the last year, negative trade war news dropped it back to lower levels.

After an optimistic surge upward, the yield on the ten-year U.S. Treasury note zig-zagged downward during the week but managed to hang on to a 16.7 basis point rise to close at 1.724%, still well below the 90-day T-bill's yield of 1.928%. As a result, we still have a decidedly inverted yield curve. West Texas Intermediate Crude oil (WTI) followed suit, rising 5.96% for the week but is still almost 18% down from a year ago and only up 0.85% for the last three months.

One of the more notable events of the past two weeks was not what happened in the markets, but what didn't happen. Historically, an attack on a Saudi oil refinery, eliminating about 5% of the world's oil supply would have caused an impressive spike in the price of oil. A few decades ago, the "Tanker War" in the Persian Gulf caused a near doubling of oil prices almost overnight. That spike would have then likely caused a panic in the stock markets around the world.

On September 14 the attacks on two major Saudi refineries, eliminating about 5% of the global oil supply, caused so little market disruption that WTI rose only to $62 and then promptly dropped back to $58. The stock markets barely budged. The reason there was so little reaction in the markets was that the U.S. has become the world's largest oil producer and the second-largest exporter. We and the world are no longer at the mercy of Arab oil suppliers. It has taken us nearly 50 years since OPEC's embargo crippled the U.S. economy, but we are finally in the position where a major disruption in oil supplies from the Persian Gulf is a mere blip on the U.S. economic radar. This is an event worth noting and for which we should give thanks.

The Economy

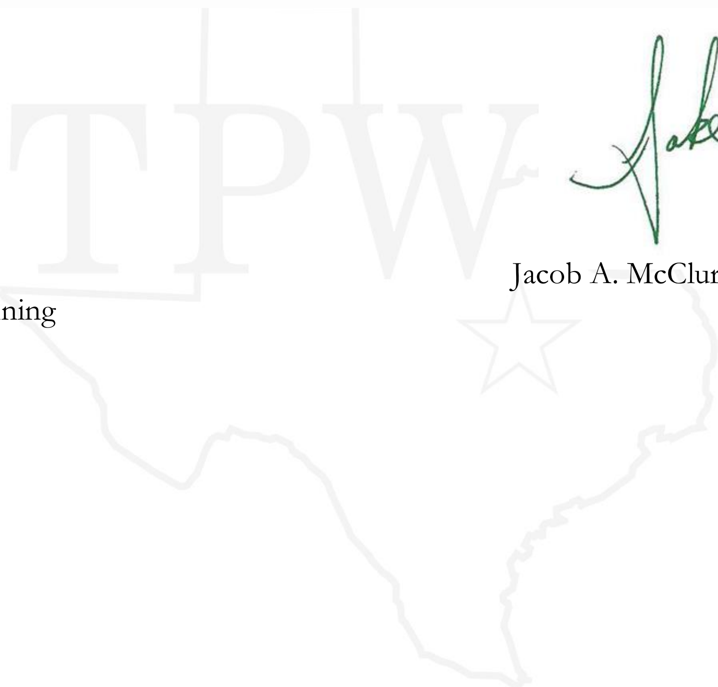
There was little comment this month as the Conference Board's Index of Leading Economic Indicators (LEI) was released. The Index reading produced what we see as a very accurate but uncertain prediction as it came in with a change of exactly zero. Meanwhile, the lagging indicator dropped 0.3 and the coincident indicator rose 0.3. The signal was clear if extremely ambivalent. The risk of a recession occurring in the next 12-18 months is real but at the same time, the current indicators are extremely healthy.

For the month of August, building permits, mainly for multi-family, rental properties, soared at an annualized rate of 2.6%, the labor market continued its steady beat of something approaching full employment, while personal income and consumer spending increased at a 3.6% annualized rate. Meanwhile, the yield curve, transportation, financial markets, and manufacturing continued to look sour. When it was all taken together, the negatives and the positives balanced out.

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.

Just as in most of the past year, the overall impression was that we have an economy that is straining at its physical constraints of a shortage of skilled labor and a dramatic rise in the price of some raw materials but is being held back by the trade war with China, a slowing global economy, and declining business investment. The result is a profound economic uncertainty. That uncertainty is holding back businesses investment and as time goes by, an ever-increasing threat to this economic expansion.

There was a minor financial earthquake this week as overnight interbank lending rates suddenly jumped from below 2% to 10% as a shortage of money emerged in the money-center banks of New York. The reasons were complex but were related to the recent Congressional delays in funding government operations. Once the funding was authorized, the Treasury rushed to replenish its cash reserves, draining the system of ready cash. At the same time the Treasury, because of this year's trillion or so dollar deficit was soaking up cash as it auctioned off short-term obligations. Fortunately, the Federal Reserve was ready and able to loan out tens of billions of dollars to cover the shortage and all was well at the end of the week. In short, an unpleasant money shortage occurred but the system worked the way it was designed, and things returned to normal.



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.