THE PERSONAL WEALTH COACH®

An SEC Registered Investment Adviser

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TPWC Market and Economic Update

The Markets

The stock market, represented by the S&P 500 Stock Index (SPX), started off the quarter with such a negative attitude that a reasonable observer would have easily been forgiven if he had visions of 1987 but by the end of the week turned in a decline of only 0.33% to close at 2952.01. That unexpected near-recovery left it with a one-year gain of 2.3%, again pretty much the same as inflation, but at least not a loss. The word on the street was that traders were hoping and praying for the Federal Reserve to ride to the rescue with another rate cut.

The bond market chose not to join in on the "maybe it's not so bad" approach to the economy as the ten-year U.S. Treasury note yield continued its seemingly relentless march lower to close out the week at 1.528%. With the 90-day T-bill rate sitting at 1.703%, the yield curve continues firmly inverted and to forecast a recession next year. To put that in perspective, the ten-year interest rate has now declined by about 50% in a single year. Even that is dwarfed by the five-year rate, yielding about 1.3% compared with over 3% at this time in 2018. The bond market seems to be willing to bet the farm that in less than two years, current interest rates are going to be a lot lower than they are today. Crude Oil (WTI) joined in the negative chorus, declining 5.8% to $52.94.

The Economy

The headline economic news was the Labor Department reported the U.S. unemployment rate to have dropped to 3.5% in September, once again the lowest since 1969. Employers created 136,000 jobs, a number that sounds quite impressive until we consider that last year at this time, we were routinely creating 200,000 to 250,000 jobs per month. Deeper in the report the news was a bit more sobering. Manufacturers cut jobs but the gain in the services side of the economy more than made up for the losses in manufacturing. Hourly earnings climbed 2.9% from one year ago. Separately, the Bureau of Economic Analysis reported that Disposable Personal Income rose half a percent from July while expenditures rose at 0.1%.

Macroeconomic Advisers came out with a one-year estimate of the U.S. GDP at 1.9%, a lot slower than the 3% the 2018 tax cut was advertised as creating. Part of that relatively low number was generated by the news that our trade deficit widened to $72.8 billion in August, up 0.5% from July. The economic forces driving the growing deficit appear to be the increased disposable income and the anticipation that tariffs will be higher in the future. Inventories at the retail and wholesale level continued to grow at a monthly rate of about 0.4%. Inventory growth adds to the statistical growth of the economy but is all but certain to subtract from it in the not-too-distant future as it is liquidated.

Not making the headline news, but still, in our opinion critical, was the Manufacturing ISM® Report on Business from the Institute for Supply Management. The September Purchasing Managers Index (PMI®) dropped to 47.8 on a scale where numbers below 50 indicate contraction and above 50 indicate expansion. Manufacturing production has historically been a reliable leading indicator for the direction of the economy several months out and the Purchasing Manager's Index has been likewise a leading indicator for manufacturing. Economists expected a reading around 50 in September, so the 47.8 number was a real eye-opener. The report continued a trend from a high reading around 60 in October of last year, declining to 54 in July, and 49.1 in August. Sure enough, as we reported last week, actual manufacturing production has faithfully followed the PMI in its downward trend. Factory orders fell 0.1% in August

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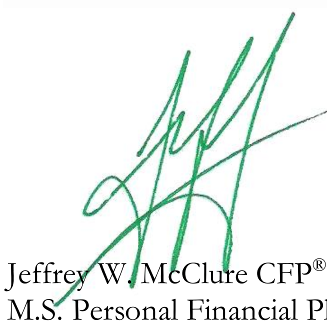
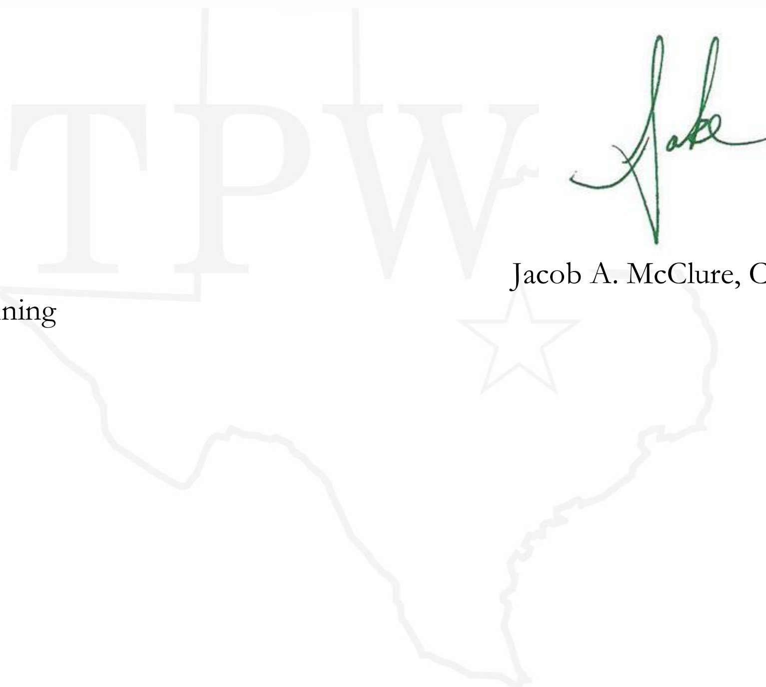
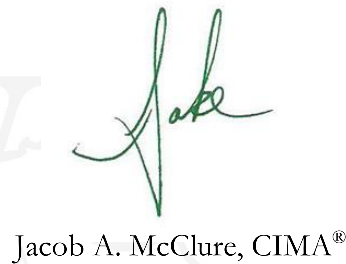
after rising 1.4% in July's surprising jump. Transportation orders are down 8.4% from a year ago while the orders for core capital goods were down 0.4%.

As we reported last week, the non-manufacturing side of our economy is what is keeping us out of the ditch, with a minor assist from government spending. The ISM Nonmanufacturing Report came out on Thursday. Like the Manufacturing PMI, it was around 60 a year ago but has descended since and is now at 52.6. Responses from survey participants indicate they intend to reduce hiring and hold what they have until after the Christmas season but they are seeing a reduced potential for growth.

The bottom line remains the same. Current and lagging indicators such as the unemployment rate, are still indicating a strong economy but business sentiment and the leading indicators are signaling a high potential for a downturn in 2020. Such downturns in the economy are usually preceded by a stock market decline, so be prepared to weather a rough patch. The good news is that all of the very long-term indicators are signaling that the recovery will be dramatic and robust.







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