THE PERSONAL WEALTH COACH®

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TPWC Market and Economic Update

The Markets

The S&P 500 Stock Index (SPX) again turned in a positive week despite the mostly bad economic news closing at 2986.20, up 0.54% for the week. The positives were clustered around tweets that the U.S. and China had a substantial agreement to end the trade war and a Brexit deal might be reached while the negatives were that the trade agreement looks more and more like the status quo and the economy appears to be headed for a stall. The Index has only risen by 0.32% over the past three months but is up nearly 8% from this time last year.

The ten-year U.S. Treasury note closed at 1.749%, up 21.9 basis points from last week and higher than the 1.674% of the 90-day T-bill, thus continuing to technically avoid a negative yield curve. That relationship is cold comfort as the five-year note is yielding 1.576%. Historically, following an extended period of yield curve inversion at the ten-year point, while still staying inverted at shorter maturities, it has simply meant that the predicted recession is drawing closer but that better times may come on the other side. As always, only time will tell. Crude oil futures, another reliable predictor of the economy's direction, declined 2.26% for WTI to $53.68, leaving the price down about 23% from a year ago.

The Economy

The lead story this week is that the Census Bureau announced on October 16 that September sales for retail and food service businesses declined 0.3% from the previous month but were, in a flash of lagging good news, were up 4% from a year ago. August's retail sales were adjusted to be up 0.6% but the plus was driven primarily by auto sales, a number that changed to a sharp negative in September as auto sales dropped by about 0.9%. Retail and food service sales reports are the first indicators of what the consumer sector of our economy is doing and since that is about 2/3 of the whole economy it is critical. Making it more critical currently is that consumer spending is about the only positive in the whole domestic economic picture and appears to be what stands between us and a recession.

In another dose of worrying news, new building construction permits fell 9.4% from August. Building completions showed a similar decline of 9.7% and were 0.1% below those a year ago. The longer-term view suggests that building peaked in early 2018 shortly after the tax cuts went into effect and have been in a slow decline since.

Longer-term readers will tend to think this is old news, but The Federal Reserve reported on the 17th that U.S. manufacturing output, which makes up about 11% of our economy, fell more than expected in September, down 0.5% for the month and down 0.9% from this time last year. Reflecting on the Retail Sales Report, even excluding the sharp decline in auto sales, manufacturing output still fell by 0.2%. That Federal Reserve report tends to confirm the Institute for Supply Management's report last week that manufacturing production future growth estimates fell to a ten-year low in September. Respondents to the various surveys indicated that the trade war with China, skilled labor shortages, a slowdown in demand, and the GM strike were the major factors.

It was hard to find good economic news for the week ending on October 18 and the gloom was topped off by Friday's release of the Index of Leading Economic Indicators (LEI) from the Conference Board. For September the LEI declined 0.1% following a 0.2% decline in August. The faint echo of some not-so-bad news could be detected in the coincident economic indicator, which was flat, and the lagging indicator which was a positive 0.1%. Those two indicators suggest why, despite the fall in manufacturing, building, exports, and retail sales, things don't seem so bad. The six-month LEI is still up 0.2%, so the jury is still out, but considering the six-month LEI was up a full 7% about a year ago, the trend is worrying.

The bottom line remains the same as in recent weeks. The underlying foundations for near-term economic growth are decaying but the current situation is good as the economy continues to run on momentum and high employment. Unchanged as well is the major role tariffs are playing. Were the President to suddenly declare victory and remove the tariffs we could see a major relief rally in both the economy and the markets. If further tariff increases happen, it could easily tip us into a recession and bear market. If things remain unchanged, the odds of a recession in 2020 are high.

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