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

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TPWC Market and Economic Update

The Markets

The S&P 500 Stock Index (SPX) rose a delightful 1.22% for the week to close at 3022.55, finally clearing the “3000 ceiling" off which it has been bouncing for several months. That rise puts the Index at only a 0.11% loss for the trailing three months and up a whopping 13.69% from a year ago. Before we get too excited, the SPX is still three points below where it was in late July when it rose to 3025 before succumbing to more tariff-related bad news. It is also only about 5% higher than it was in January of 2018, 21 months ago. In short, the stock market appears ready for either a breakout or a slap back.

The yield on the 10-year U.S. Treasury note fell during the middle of the week but soared to close at 1.80% by the close on Friday, confirming the end of the inverted Treasury yield curve. West Texas Intermediate crude oil closed out at $56.63, 5.44% higher than a week ago although still down over 16% from last year at this time. Both the Treasury yield and the price of oil were credited to optimism that the U.S. and China might have a breakthrough to end the trade war.

The Economy

The U.S. Treasury finally closed out the books on the fiscal year 2019 and, as of the end of September when the federal fiscal year ended, the federal deficit for the year was officially $984.4 billion, up 26% from 2018. 2019’s overdraft brings the total official federal debt due to 78% of GDP. Barring some major unseen event, all forecasts anticipate that the total for the calendar year will exceed $1 trillion and keep on doing so for at least the next decade. In past economic cycles, the federal government borrowed heavily during times of war and depression then paid down much of the debt in good times. This time around we have decided to give ourselves a tax cut and increase spending. Economists generally do not see a good end to this practice but only time will tell.

We can say that the record-high levels of short term borrowing by the federal government are having an unprecedented effect. Beginning about six weeks ago, the Fed was infusing $35 billion per week into the short-term Treasury market each weak as it bought freshly issued Treasury bills to fix a sudden and unexpected cash shortage in the economy. Two weeks ago, as it became apparent that there was still a short-term cash flow problem, the weekly infusion was raised to $75 billion. Last week came the announcement that the ceiling was to be raised to $120 billion. On Friday, the Fed announced an extra $77.3 billion would be added to major banks’ liquidity to cover the weekend. While the intervention of the New York Federal Reserve bank to offset a cash crunch in the money-center banks is absolutely one of the prime missions of the Federal Reserve, to trigger an emergency relief function of the U.S. central bank in a time of economic boom should be taken seriously. We have triggered a stress crack in the system. The culprit is the decision not only by Congress to run amazingly high deficits in a time of high economic demand but also by the Trump Administration to focus the borrowing on the short end of the curve. As the short-term Treasury securities mature, the Treasury must not only sell new ones to cover the deficit but also more to cover the maturing issues. This cycle is piling up and in doing so draining the cash from the system and forcing the Federal Reserve to step in to prevent a crisis.

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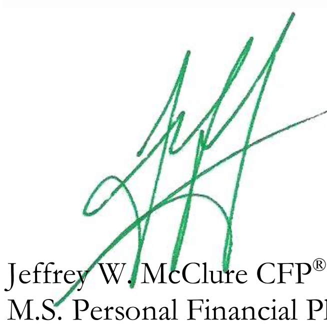
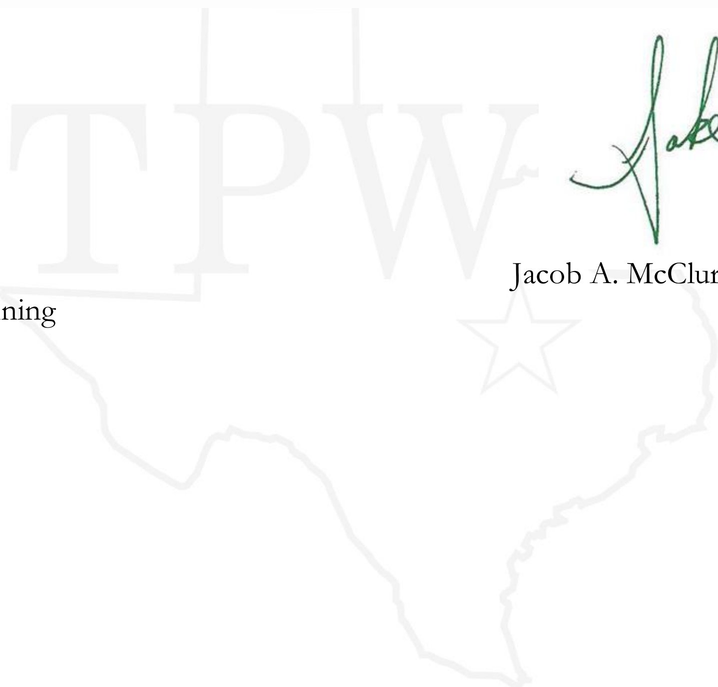
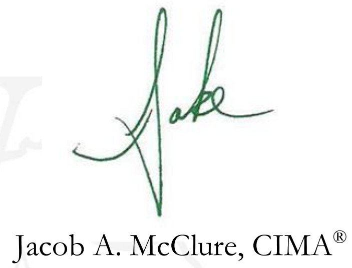
Meanwhile, in the bigger economic picture, durable goods orders in the U.S. were down 1.1% in September. Shipments to fill old orders have been declining for the past three months and were down another 0.4% for the month. At the same time, inventories continued to increase, suggesting that manufacturers are still producing more than they are selling each month. Capital goods, which are the high-dollar items companies use to make other things and to do new business, declined 2.8% in September.

We certainly don't know if history will repeat itself but in 1920, one hundred years ago, largely because of tariffs, fiscal mismanagement, and an unexpected cash shortage, our economy experienced the largely forgotten "mini-depression" of 1920-21. It followed a record-low unemployment period and a decline in domestic manufacturing. There are similar forces in play today but there are also striking contrasts. As always, all we can do it watch and be aware.

The evidence continues to mount that consumer spending alone is propping up the economy with all the other elements surviving on the hope that the trade war will end soon and bring with it a resurgence in international trade. At the same time, each survey of business owners both here and around the world grows gloomier each month.







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

Jacob A. McClure, CIMA®

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