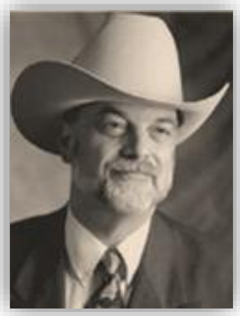

THE PERSONAL WEALTH COACH®

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TPWC Market and Economic Update

The Markets

The S&P 500 Stock Index (SPX) started off November with a bang. At the close of the market on Thursday, October 31, it had a slight loss for the week but as news came out that the Federal Reserve Board had cut rates another quarter percent, it jumped upward almost instantly. That jump constituted most of the week's gain, 1.47%, and resulted in the SPX finishing the week at 3066.91, a new record high. To put this record high close in perspective, in late July, the Index stood at 3025, thus it is now at a record level that is only 1.36% higher than it was four months ago and 6.7% better than it was nearly two years ago in January 2018. In short, despite the headlines, not much has changed. The good news is we are holding our own with a slight gain.

The bond market failed to join in the celebration as the yield on the 10-year U.S. Treasury note fell 3.7 basis points for the week to close at 1.714%. In a bit of bond-related good news, the reduction in short-term rates by the Fed did bring those short-term rates down to about the same as the five-year note, thus making the yield curve essentially flat out to five years and from there on an upward slope. West Texas Intermediate crude oil surged upward 3.51% on Friday's good jobs report but still finished out the week down 1.01% at $56.10.

The Economy

The Federal Reserve cut its target short-term interest rate for the third time, bringing the benchmark down to a range between 1.5% and 1.75%. In its statement and in speeches by members of the board, it was clear that the Fed is not expecting to reduce rates any further unless there is a clear need to do so. This three-cut move is historically favorable in that for the past several decades, when the Fed has cut three times and then stopped, the market has been significantly higher six months later. More cuts than that are a sign that a recession is at hand and the markets have generally declined.

At the same time as it cut interest rates, the Fed also announced it was injecting about $105 billion in short term liquidity into the money markets to cover the weekend. That sudden injection was on top of the planned weekly $60 billion funding it had announced earlier. The infusion was reportedly needed to partially offset the approximately $193 billion the Treasury is borrowing weekly on the short-term cash market as we work our way to a $1 trillion federal deficit this calendar year.

Nonfarm payrolls rose by 128,000 in October, better than the consensus estimate. Despite the increase in new hiring, the unemployment rate rose from 3.5% to 3.6%. Good, or at least, not-so-bad news was the order of the day as the ISM manufacturing survey for October rose from 47.8 to 48.3. While anything below 50 still indicates contraction, the good news is that the contraction rate appears to have decreased.

Yet another headline-grabbing announcement was that the U.S. Gross Domestic Product (GDP) grew by an annualized rate of 1.9% in the third quarter. That rate was a bit of a surprise as most estimates were that we would see something between 1.5% and 1.8%. While 1.9% is a good growth rate, it represents a substantial decline from the over 3% rate in the first quarter and is down from the second quarter's 2.0%. Evidence from October suggests that the slowing rate of growth will continue into the fourth quarter.

Digging a bit into the GDP report it appears that consumer purchases and government spending are about all that are keeping things going. While our economy is indeed based on consumer spending, credit card balances have been rising at an annualized rate of between 5% and 8% this year. It doesn't take much math to realize that both the sources of economic growth that are driving our economy are doing so largely from an ever-increasing debt load. Unless we can get the productive parts of our economy back online, this party will at some point come to an end.

The bottom line is that the three interest rate cuts by the Federal Reserve seem to have done the job of convincing investors and employers that easy money is here to stay. While consumer spending has leveled off, the personal consumption expenditures price index, a good measure of real inflation, fell 0.01% in September and is only up 1.33% from a year ago. That very muted increase in prices effectively gives a boost to the economy as wages are rising, on average about 2.9% per year, effectively leaving more money for the consumer to spend.

Until next week, we remain at our posts, vigilantly watching the tea leaves of the economic data for signs of the future.

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