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

November 15, 2019

TPWC Market and Economic Update

The Markets

There was a lot of what the Germans call "strum und drang" this week with upside retail earnings surprises, wild rumors, and tweets that either proclaimed the end of the trade war or a grand escalation, and both manufacturing and agriculture taking some hard hits. Given all of that, it would be quite reasonable to see the stock market doing something dramatic. The S&P 500 Stock Index (SPX), our preferred market indicator, seemed to ignore it all and quietly rose 0.89% in quiet trading to close at 3120.46, another record achieved by the thinnest of margins. That puts the index up 8% in the last three months, but just 3% from the end of this July and has risen only at a rate of about 4.3% per year over nearly the past two years.

The bond market, as indicated by the benchmark 10-year Treasury note refused to join the party as the yield fell about 11 basis points or 5.6% to close the week yielding 1.833%. Again, it is good to remember that a mere year ago that T-note was yielding over 3%. Historically, it is more than a little unusual for the bond market to see sagging yields while the stock market turns in a seemingly never-ending series of new highs. Crude oil signaled agreement with stocks as West Texas Intermediate rose 0.84% to close the week at $57.93 per barrel.

The Economy

The Bureau of Labor Statistics, one of our favorite government agencies, announced the Consumer Price Index (CPI) change for October. From September to October, the U.S. CPI rose 0.4%. That may not sound like much, but if we annualize that number, we wind up with nearly 5% inflation. Some of that was driven by an increase in energy costs as gasoline rose by 3.7%. Admittedly, inflation has only risen 1.8% from a year ago, but after the last six months when monthly inflation was only rising at an average of 0.1%, October's jump in prices was notable. It is next month's report that will show whether the increases in tariffs are filtering through to retail price tags.

More reports came in over the week confirming that the non-consumer side of our economy continues to decelerate. The American Association of Railroads reported that total rail carloads for the week ending November 2 were down 8.9% from a year ago. The only positives were grain and petroleum shipments.

In a spot of good news, overall retail sales in the United States reversed September's 0.3% decline to put in a rise of 0.3% for October. Walmart reinforced that bright spot as it announced a 6.1% rise in third-quarter operating profit and a 3.2% increase in comparable sales. That announcement marked five years of uninterrupted sales growth. The fastest sales growth for the company was in online groceries. Unfortunately, the retail sales for the fourth quarter appear to be rising at only a 1.6% annualized rate. That is better than a contraction but far below the over 3% growth, we saw in the first half of the year.

Retail sales at building material stores fell 0.5% in October, the second consecutive monthly decline. Industrial production fell another 0.8%. If we adjust for the General Motors strike, fires in California, and the Boing 737 Max standstill, production was still down 0.2%.

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.

In a somewhat more sobering announcement, the Federal Reserve Bank of New York announced it had to add another $68 billion to the financial markets on Friday, a historically unusual move that has recently become a routine daily event. That announcement came at about the same time as the Federal deficit for the trailing twelve months hit the $1 trillion mark and kept growing. Part of that, for us, unnerving escalation in debt was generated by the about $60 billion so far this year that the administration has given to farmers to partially offset the trade war effects. Certainly, we have taken in around $7 billion in tariff taxes but that is small potatoes when compared with just the payments to farmers to offset those tariffs.

The bottom line is well expressed by Moody's Analytics where they are now estimating the U.S. GDP to grow only at a 0.6% annualized rate in the fourth quarter. Again, that is a continuing extension of a trend from the over 3% rate in the first quarter to consistently lower growth rates in each successive quarter since. Unless something changes it is hard to see us avoiding a recession sometime in 2020.

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

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.