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 22, 2019

TPWC Market and Economic Update

The Markets

Our old friend, the S&P 500 Stock Index (SPX), gave back some of the ground it gained last week as it fell 0.33% to close at 3110.29, leaving it with a very respectable gain of 2.90% for the last month and 9.24% for the trailing three months. To keep that in perspective, the market is up about 2.3% from the end of July and only up about 2.6% per year from about two years ago. The Index was well on its way to breaking more records until Wednesday, Nov. 20 when news leaked that the initial trade agreement between the U.S. and China had hit a snag and likely would not be completed this year. That was followed by a threat by the President to raise tariffs even more.

The U.S. 10-year Treasury note yield joined in the unhappiness about the trade war by dropping 8.93% to yield 1.769% at the end of the week. As short-term rates have remained just above 1.5%, the yield curve retained a positive if shallow curve. Oil wound up where it started the week as West Texas Intermediate crude oil closed at $57.93 per barrel unchanged from last week's close.

The Economy

In a flash of good news, the analytical and data company IHS Markit announced that its U.S. Composite Purchasing Managers Index (PMI) for November bumped up from October's 50.9 to 51.9. In the Index, any number above 50 indicates growth while numbers below 50 indicate a contraction. The PMI is a survey of the managers who are tasked with the job of procuring raw materials and parts for businesses' planned activity over the next several months. The best part of the announcement was that the Manufacturing PMI rose to 52.2 from October's 51.3. Unfortunately, Industrial production fell 1.10% while non-defense durable goods orders fell 1.2% for the month. While the PMI is a flash of good news, the orders, production, and output continue to sag lower creating a mixed message that we will need to monitor closely.

In another mixed economic report, U.S. existing home sales rose 1.9% in October and are up 4.6% from a year ago according to the National Association of Realtors. The less good side of that statistic was that most of the increase was in homes priced between $500,000 and $750,000 while sales of homes priced below $250,000 declined. That decline in sales for lower-priced homes was most pronounced on the West Coast where sales declined 19.5%. Another concerning indicator was that first-time buyers, normally a big part of existing home sales, dropped to one-third of the total. The complete picture suggests that high-end homeowners are trading between themselves while the critical flow of new home purchases is falling at an unusually high speed. Historically, the current average 30-year home mortgage interest rate of 3.75% would have a highly stimulative effect on new buyers and home at the lower end of the price range but that does not seem to be the case here in late 2019.

To us, the economic and market behavior we have seen in 2018 and 2019 appears a lot like what we saw back in 1998 and 1999. There are some very significant differences, but the similarities are eerie. In late 1998 the stock market dropped about 20% and it did the same in 2018. After the 1998 plunge, the markets recovered and moved on to set new highs on most days into late 1999 and early 2000 despite less than optimal economic news. The same can be said of the markets this year. In 1999 unemployment was at near-record lows and remained so well into 2000. Once again, the parallel is there.

The differences between 1999 and 2019 are also notable. In 1999 and 2000, the federal government was running a revenue surplus while today we are at a near-record annual deficit and the largest we have ever run during an economic expansion. In late 1999, the S&P 500 price to earnings ratio (P/E) was about 30 while today it is about 23. Inflation was higher in 1999, about 3.4%, and the Fed Funds rate was 5.5% while the GDP was growing at 4.8% per year. In short, things looked rosy on the surface in late 1999 but by March of 2000, the stock market began its decline.

Are we repeating the pattern from twenty years ago? While there are similarities and there are differences, only time will tell. One thing that has shown up repeatedly over the years is that years ending in zero have often presented us with bear markets and the beginning of recessions. If that is the case for 2020 the recession would very likely be relatively mild as the wild extremes that typically precede major downturns are missing from the economy.

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®