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TPWC Market and Economic Update

The Markets

After peaking on the day before Thanksgiving at about 3154, the S&P 500 Stock Index (SPX) felt a bit overstuffed and sagged back a bit to 3140.98 as it closed out the day early on Black Friday. Still, it turned in a very respectable 1.21% gain for the shortened week. It is now up 3.4% for the past month and 7.4% for the trailing three months. To provide our traditional nonstandard perspective, the week's 1.21% gain puts the Index 3.8% higher than it was at the end of July and up at an annualized rate of about 4.6% since February 2018.

The ten-year U.S. Treasury note failed to get in the holiday mood as it fell 5 basis points to 1.782%. The Treasury yield curve remains essentially flat out to five years where it was showing a 1.635% yield. The curve is, in essence, predicting that interest rates will be slightly lower a year from now, at around 1.6%. The bond market is thereby collectively predicting a mild recession in 2020 but like most predictions, it is to be taken with a grain of salt. West Texas Crude oil (WTI) rather suddenly fell from $58 per barrel mid-day on Friday to close at $55.42 at the end of the day, taking it down 4.33% for the week. Traders credited the drop to a resurgence in pessimism on the U.S.-China trade war and resulting global demand for oil.

The Economy

The broad economic news initially looked fairly cheery this Thanksgiving week as the Commerce Department's Bureau of Economic Analysis (BEA) revised the third quarter Real GDP growth rate with its "second" estimate, raising it from the first estimate's 1.9% to 2.1%. In the same report, the BEA reported the core PCE Price Index, the Federal Reserve's preferred measure of inflation, was rising at a 2.1% annualized rate in the third quarter, almost exactly at the Fed's target of 2%.The report also revealed that the revised higher growth rate was primarily from increases in inventory, suggesting that pre-tariff hoarding was still a factor in the economy. Inventory buildup is, in effect, borrowing from future GDP numbers and in the event of a downturn can later become a negative GDP input.

While the revised third-quarter GDP data were pleasant, October, the first month in the fourth quarter, produced some less delightful results. For the first time in many months, personal income did not rise but rather came in at 0%. Disposable personal income sagged in inflation-adjusted dollars by 0.3%. U.S. household spending was up by what initially looked like a healthy margin of 0.3% for the month, but looking a bit deeper revealed the increase was from higher electric bills and more expensive gasoline. The darker side of the report revealed that spending for longer-lasting goods fell at a 0.7% rate. That core PCE inflation rate that reflects the change in prices on things that consumers actually buy each month, dropped back to a 1.6% year-over-year rate, indicating demand may be softening.

Another bit of concerning news the *Wall Street Journal* reported that capital business investment by the companies in the S&P 500 grew only 0.8% in the third quarter and without Apple and Amazon would have fallen. Back in late 2009, we reported that we were confident that the recession was over and good times were ahead because we saw dramatic increases in capital spending by major corporations. Capital spending, or investment, occurs when companies build or buy long-lasting equipment or buildings from which they intend to create profits in the future. A pullback in the capital spending rate has little short-term effect but bodes ill for the longer term.

Meanwhile, the CPB World Trade Monitor reported on Monday 11/26 that the volume of global trade dropped by 1.3% in September and is now down 1.1% from this time last year. It is important to remember that profits are generated by trade. A persistently declining trade volume globally will eventually create a global recession and we are part of the global economy.

Last but not least in the litany of news from the dismal science, the Conference Board's Index of Leading Economic Indicators (LEI) declined for the third consecutive month in October, down 0.1%, after falling 0.2% in August and September. Those declines bring the six-month average down to a -0.1%. The red flags are not up, predicting an imminent recession, but we are seeing yellow flags and if the LEI reports continue to fall, the probabilities of a recession in 2020 will grow from the roughly 50% level we are currently seeing.

Overall the data are strongly indicating a better than even chance of a mild economic recession in 2020.

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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