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## TPWC Market and Economic Update

### The Markets

With all the good news about the budget, the U.S.-Mexico-Canada trade agreement (USMCA), and the China-U.S. trade pact, one would reasonably expect to see the stock market soar, but instead, it barely broke even for the week ending on Friday the 13<sup>th</sup> this month. The S&P 500 Stock Index struggled to eke out a 0.73% gain for the week to close at 3,168.80 after spending much of the week in negative territory, but then only rising to where it was last week on trade news. The story going around, according to the *Wall Street Journal*, was that the assumption that a trade deal would be reached and the 15% tariffs on consumer goods that were to have taken effect on December 15 was not going to happen was already priced into the markets. Thus, the lack of a deal on the budget, trade, or USMCA would have caused a market drop but all the good news simply confirmed what the traders had already assumed.

The ten-year U.S. Treasury note yield reacted much the same as did the stock market during the week. Yields surged above 1.9% on news of the U.S.-China agreement but then sagged back as the details emerged. The Treasury note ended the week up a mere 4.5 basis points at 1.827%. West Texas Intermediate crude oil was a bit more optimistic, rising 1.2% for the week to close at \$59.78.

### The Economy

As we wrote above, there was plenty of good news at the political level in the week that ended on Friday the 13<sup>th</sup>. The U.S. and China are reportedly ready to sign a “Phase-1” deal that avoided the 15% tariffs on consumer goods set to go into effect on December 15 and further cuts the existing tariffs in half, to 7.5%, on \$120 billion worth of imports. Notably, the proposed deal leaves in place the 25% tariffs on about \$250 billion in Chinese exports. China agreed to purchase more agriculture goods from us and to work harder at ending copyright and patent violations. Included were some non-specific promises to no longer demand technology transfers. One of the immediate problems was that the announced agriculture purchases were larger than America’s farms could produce while still meeting current domestic demand and other export contracts. After traders and investors examined the reported provisions, markets sagged as it became apparent the “deal” was more of a cease-fire truce than a trade agreement.

A non-event from the market’s perspective that we thought was a big deal was the announcement that Democrats, Republicans, and the White House have agreed on a budget compromise to prevent a government shutdown on December 20. It is not a done deal yet, but the leaders have a tentative agreement and about a week to work out the details. Last year’s end-of-year government shutdown was a major contributing factor in the nearly 20% market sell-off in late December.


In another burst of good news, the House Democrats agreed to support the U.S.-Mexico-Canada Agreement (USMCA) potentially ending the economic threat by the President to simply end NAFTA with no new agreement to replace it. Unfortunately, the Republicans in the Senate were miffed and are likely to hold up on approval until January or February. Still, the approval seems to be on track and if so, it assures that we can continue free trade with our two biggest trading partners. Much of what we make in the United States is so integrated with cross-border trade that elimination of NAFTA without a replacement would potentially put the U.S. in a recession.

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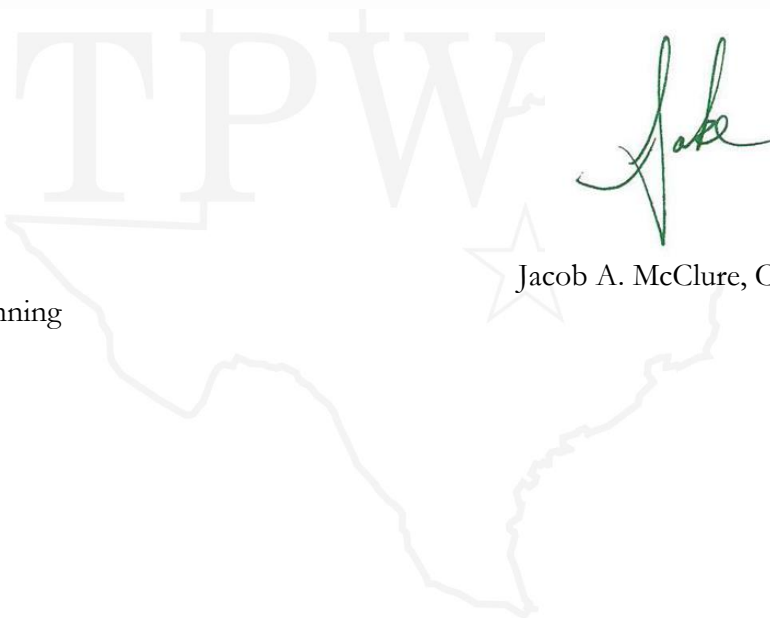
In more fundamental but not so positive news, the Commerce Department reported that retail sales for November were essentially flat from October's numbers. Normally November sales jump as we enter the holiday season, but consumers appear to be scaling back on discretionary purchases this year. Still, retail sales were up 3.3% from a year ago. The 3.3% year over year increase is a positive but well below the 4% to 5% annual increases we saw earlier in the year. Despite all the political good news, if the consumer decides the credit card bills are getting too high, an economic sag in 2020 would potentially be in the cards. The flattening in consumer spending was confirmed as the BEA reported that disposable personal income, after payments for existing debt, taxes, food, and shelter, declined 0.1% in October. In that same report, spending on long-lasting goods decreased at a 0.7% rate.

There are many positives, but overall the indicators suggest that the U.S. economy may well be at peak production with the consumer spending more than is being earned and running up ever bigger short-term debt. Historically, inflation and wages have risen at this point in the cycle, helping to alleviate the rise in consumer debt but this time around inflation looks unlikely to ride to the rescue. There is little room for healthy expansion in 2020 but there is still room for speculation to take the stock market up to unhealthy levels. Keep watching.

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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