THE PERSONAL WEALTH COACH®

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TPWC Market and Economic Update

The Markets

A full-fledged Santa Claus rally was clearly underway on Friday as the S&P 500 Stock Index (SPX) popped up after an otherwise lack-luster performance in the first four days to close at 3221.22, up 1.65% for the week and yet another record high close. The SPX has risen 7.66% over just the trailing three months, about the average gain it has turned in per year in its long history. The cause seemed to be more a matter of a reduction in fear about bad things happening than any specific good news. The delightful news of the stock market rising at a booming rate should be tempered by the fact that earnings of the companies that make up the index were down 0.4% in the third quarter from a year ago and are estimated to drop another 0.1% in the fourth quarter.

The U.S. Treasury yield curve started looking absolutely positive for the week as the 10-year U.S. Treasury yield climbed 4.11% to end the week at 1.915% with little sign of last summer's inversion left in the readings. The 10-year yield remains 34% lower than at this time last year but at least is climbing. West Texas Intermediate crude oil joined in the party, rising 1.45% to close at $60.35. Gold, reflecting the general surge of optimism with its contrarian nature, was essentially flat but is down almost 3% over the trailing three months.

The Economy

The markets may be on a tear, but the Index of Leading Economic Indicators (LEI) published by the Conference Board was flat this month after three months of consistent -0.2% readings. The six-month trailing LEI average is now -0.033. A negative six-month average for the LEI is not a guarantee of a recession but suggests the odds are at least even that we will see an economic contraction in the next year.

There was plenty of good news, or at least the removal of the threat of short-term bad news, to spur on the stock rally. The government was on schedule to shut down on December 20, but Congress passed a spending bill Thursday encompassing everything that had not already been done. Attached to that spending bill was the SECURE retirement bill raising the starting date for required minimum distributions to age 72 and eliminating the stretch IRA for beneficiaries among other things. On the same day, the House of Representatives passed the USMCA trade agreement and sent it to the Senate where it is expected to pass easily, albeit after a bit of a delay as the Senate leadership wanted to demonstrate that the administration had been talking to the Democrats too much.

On Wednesday the Federal Reserve announced that Industrial production increased a seasonally-adjusted 1.1% in November as the General Motors strike ended. Then, in a separate report, the Commerce Department said that housing starts jumped 3.2% in November from October and residential permits rose 1.4%. The Labor Department, not to be left out of the good news party, announced that job openings at U.S. employers increased by 235,000 at the end of October. That number was down from last year's average but still a strong indicator that jobs are still being created. Finally, the good old Bureau of Economic Analysis at the Commerce Department was not to be outdone, releasing the news on Friday that personal-consumption expenditures (PCE), or household spending, rose a seasonally adjusted 0.4% in November from October. That rise put PCE up 2.4% from a year ago.

Amid all this good news there were a few shadows worth paying attention to. The answer to why we are seeing so little inflation despite record low unemployment may have been revealed in a couple of reports that came out during the week. First, despite high corporate earnings (profits) in the 50 largest U.S. corporations, the Bureau of Economic Analysis data indicate that when all U.S. companies, both publicly traded and not, are measured, profits are down 13% over the past five years. The second reason is that most jobs that have been created in recent years are relatively low-wage service jobs even as higher-wage manufacturing jobs are disappearing. More, those jobs are commonly only for 30 or so hours per week. The net result is that most employers are not seeing rising profits and thereby not in a position to raise wages and the new hires are often seeing a wage cut as they have moved from their last employment position. While the average wage is rising, that average is being skewed by relatively few jobs that are paying very high wages.

In short, the pattern we are seeing in the economy seems to more and more resemble the one we saw in 1999 when all appeared to be well in the macroeconomic statistics but there was a weakness underlying the facade that resulted in the recession that started in the year 2000.

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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