# THE PERSONAL WEALTH COACH®


**An SEC Registered Investment Adviser**

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## TPWC Market and Economic Update

### The Markets

Our old friend the S&P 500 Stock Index (SPX) turned in an impressive week, rising 0.94% to close at 3265.35. That nearly 1% gain puts it up 9.93% for the trailing three months and 3.05% from a month ago. The bell-ringer though was the Dow Jones Industrial Average that momentarily crossed above the 29000 for the first time before falling back on Friday to close at 28824. Another 3.5% rise in the Dow, about what it has done in the last month, will put it at 30000 and the prophecy in the book "Dow 30000," published back in 2003, will come to pass. Unfortunately for him, the author, Robert Zuccaro, predicted the Dow would hit 30,000 in 2008.

There is an old saying credited to Sir John Templeton, "Bull markets are born on pessimism, grow on skepticism, mature on optimism, and die on *euphoria*." Several articles published this week in the *Wall Street Journal* and other financial publications have used that word. The consensus of earnings estimates for the whole of 2019 is that the S&P 500 earnings will have *fallen* 0.2% for the year while the index has risen over 28%. Stocks are priced for their potential future earnings, not last year's profits, so the market may be right, but prudence is advised.

Despite the rousing party on Wall Street as the SPX and Dow continue to break price records, the yield on the 10-year Treasury note continued to sag this week, dropping 5.6 basis points to close at 1.822%. The bond market continues to reflect a belief among bond traders that the economy and interest rates are due for a blow sometime this year.

### The Economy

The week's big economic news was that nothing much has changed in the U.S. employment situation over the past month. The unemployment rate held at 3.5%, employment among major workgroups remained constant, and the percentage of workers in the 18-64 group was steady. In December, retail trade and healthcare were among the leaders in creating new jobs, 41,000 and 28,000 respectively. The other sector of the services side of the economy with the biggest gains was leisure and hospitality, gaining 40,000 jobs. The one sour note in the jobs report was in manufacturing. In 2018, manufacturing added 264,000 jobs in the U.S. but in 2019 the gain was only 46,000 and employment was down 12,000 in December. Average hourly wages rose by 2.9% in 2019 but the average workweek for production and nonsupervisory employees was only 33.5 hours while the average workweek for manufacturing was 40.5 hours with substantially higher average wages.

Overall, the U.S. economy added 145,000 jobs in December and averaged 138,000 new jobs per month for the fourth quarter. While that is an impressive number, it is substantially below the 223,000 monthly new job average we saw in 2018. December of 2018 saw the economy create 312,000 jobs, so job creation has dropped by half in one year. Perhaps most impressive though is that this December marks the 120th consecutive month of job creation and a record for that statistic in the many decades that it has been tracked. Another landmark is that, for the first time in 80 years of record-keeping, there are more women employed in the United States than men.

As usual, if one looks past the bright headline numbers, there are shadows. Those 12,000 workers who lost their manufacturing jobs in December will probably have little difficulty finding a new job but that new job is likely to be for fewer hours per week and at a substantially lower wage. That lack of upward wage mobility may be one of the reasons that inflation has remained so muted in this expansion. Another shadow is the steady decline in new jobs created from year to year. The American economy creates an average of about 125,000 newly employable people each month. That means that December's 145,000 new jobs represented a 20,000 surplus but if employment gains continue to decelerate as they have in the past year, we will soon be adding fewer jobs than we are potential employees looking for work. When that happens, the unemployment rate will move up and history suggests we would be on the verge of an economic slump.

The bottom line remains the same. There are warning signs that we may be in for a mild recession and a market correction in 2020 but there is no sign that such events are imminent. Services activity in our economy is on a tear despite the continued weakness in manufacturing. We do not have enough highly skilled workers to fill the available openings but at the low end of the job market pretty much anyone who wants a job can get one, but perhaps at a wage that is less than desirable.

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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