THE PERSONAL WEALTH COACH®

An SEC Registered Investment Adviser

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TPWC Market and Economic Update

The Markets

As we cruised into the third week of the new year, the S&P 500 Stock Index (SPX), our preferred indicator of the health and attitude of that entity we call "The Stock Market", soared 1.97% in five days to 3329.62 as it continued to break record high levels each day. There is no question we are now in a run-away bull market bearing little or no relationship to corporate earnings or much of anything else that can be measured or witnessed in the real world. It has now become so routine for the stock market indexes to break records that the news media has ceased to report it. On Wednesday the Dow Jones Industrial Average (the Dow) busted through 29000 with barely a whisper in the news. A mere 2.2% rise in the Dow will put it over the 30,000 mark.

Some perspective is due here. One way of looking at where we are today is not that on January 26, 2018, the SPX closed at 2873 and has appreciated 15.9% or about 8% per year from that early 2018 high mark in two years. The other viewpoint is that the Index is up almost 25% from one year ago. Is the market being completely rational or are we seeing, once again, irrational exuberance emerging from over-optimistic investors? Only time will tell.

The U.S. Treasury 10-year note yield didn't exactly join in the party but didn't avoid it either, rising 2.36% to yield 1.831% at the end of the week. West Texas Intermediate Oil declined in price by 0.69% to close the week at $58.72.

The Economy

The U.S economy is sending the same signals it has been transmitting for the past several months, only stronger. Alphabet, Google's parent company, became the fourth publicly-traded company in history to top one trillion dollars in value, following Apple Inc, Amazon.com Inc., and Microsoft Corp. in a valuation surge for the 50 biggest publicly traded companies. Tesla, the electric automaker, surged to a valuation of $81.39 billion passing Ford's record $80.81 billion set in 1999 even as the company struggled to turn a profit. The big profits are in the banking sector though. JPMorgan, the biggest bank in the United States by deposits, reported its most profitable year on record with earnings up 21% while Citigroup's profits increased 15%. Both reported that their soaring profits were primarily not from lending money but rather from investment banking activities (new stock offerings). The S&P 500 Index now has 18% of its total value concentrated in five companies, Apple, Microsoft, Alphabet, Amazon, and Facebook.

If this situation sounds familiar, then your memory of the economy and the markets must extend back over twenty years. As we entered the year 2000, the scenario was eerily similar. What we called the "dot-com" companies back then are the "tech" companies of today. Corporate earnings across the broad market had been declining in 1999 but there was a consensus that the behemoth "miracle" companies with their high-tech, new economy magic would somehow be able to generate good profits even if the broad economy sagged. That same consensus is once again appearing in print. The more we look, the more this looks like early 2000.

The Senate passed the USMCA, NAFTA's replacement and sent it to the President to sign. That bipartisan vote marked an end to the threat of NAFTA being pulled by the administration with no replacement. While the provisions are not markedly different between the two agreements, the key is that North America remains a free-trade zone, one of the cornerstones to the economic growth of North America over the past twenty-five years.

The U.S. Treasury announced that the official deficit for calendar year 2019 has exceeded $1 trillion. The government collected $3.5 trillion in revenues, 5% more than in 2018, but spent $4.5 trillion more than last year, an increase in spending of 7.5%. Additionally, the Treasury announced it would soon be issuing 20-year bonds to help bridge the gap. The annual federal deficit now equals 4.7% of our Gross Domestic Product with that number projected to double in about a decade.

The always dependable Bureau of Labor Statistics released 2019's estimate of the change in the Consumer Price Index and it was up 2.3% for one year. Another release this week from the Federal Reserve was less impressive as the Fed reported that U.S. Industrial Production was down 1% from a year ago and was falling at a 3.6% annualized rate in December.

The stock market is roaring upward, consumer spending is robust, although perhaps losing momentum, commercial investment is negative, and industrial production is sagging. Not much has changed but the disconnect is large enough that something will have to at some point. Either the core of our economy will begin to grow rather than shrink or the consumer will eventually run out of steam. Stay tuned.

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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