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THE PERSONAL WEALTH COACH®

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TPWC Market and Economic Update

The Markets

Defying the sudden escalation in coronavirus numbers, the S&P 500 Stock Index (SPX) turned in another exuberant week, ending at 3,380.16, up 1.58%. That good news is at least a bit dampened by the fact that the Index's recent gains were all in the last week as it is only up 1.52% for the last month. The better news is that it is up 4.62% since the beginning of the year and is only about 5 points below a new record.

The ten-year U.S. Treasury note eked out a tiny gain of 0.01% for the week to close at 1.587%, leaving the Treasury yield curve very slightly positive as the 90-day T-bill rate was 1.55% at the end of the week. Oil prices, and more specifically West Texas Intermediate Crude (WTI), showed a bit of optimism for the week, rising 3.79% to $52.25. WTI remains down almost 15% year-to-date on reduced demand from coronavirus plant and port closings.

The Economy

Our unusually bifurcated economy seems to be normalizing at a plateau as we coast into the long President's Day weekend. Consumers continued to borrow more on their credit cards buying both goods and services while U.S. manufacturing appears to be leveling off.

The Federal Reserve announced on Friday that U.S. industrial output fell a seasonally adjusted 0.3% in January. The proximate causes appeared to be a combination of Boing's 737 Max shutdown and relatively warm weather which dampened out utilities use in the northern states. In a hint that the manufacturing recession may be drawing to a close, if we ignore aircraft production and parts as well as utility output, manufacturing output rose 0.3%.

Consumers continued to increase spending at a 1.8% annualized rate in the fourth quarter of 2019. As the final tally came in though, it appears that the 2019 holiday season generated sales that were only 0.2% higher than in 2018, a figure that is within the margin of error for the surveys. That low rate of increase in consumer spending appears to have effectively slowed to zero in January. Total control retail sales for January were actually lower than they were in August 2019. A one month halt in consumer spending growth is not a thing to worry about, but if the trend continues, it could spell trouble a few months down the road.

Stepping back and looking at the bigger picture, domestic spending begins to show a pattern. The U.S. gross domestic product grew at a 2.9% rate in 2018 and declined to a 2.3% rate in 2019. By the end of the year, GDP annualized growth had slowed to just over 2%. Businesses are reporting constraints on potential growth ranging from a serious shortage of potential employees to the threatened tariffs on European goods and services. All indicators point to a lower number in 2020. Just how low is an open question.

The Federal Reserve Bank of New York reported that credit card balances increased by $46 billion to hit a record $930 billion in January and are rising at about a 5% annual rate. For a point of reference, the total credit card balance at its peak in 2008 was about $870 billion. At the same time, average wages are rising at about 3%, year over year, so we have hit the point where the consumer, the principal driver in our current economic expansion, is now spending each year's increase in income plus about half that amount more. More, the 30-day late rate on that credit card debt has been gradually rising from a low of around 5% in 2016 to around 7% toward the end of 2019.

At the same time as we are building up record levels of debt across the board the reason for the sustainability of that debt level is also quite clear. Interest rates are at near-historical lows. Investment grade industrial corporate long-term bonds are yielding 3.07%, the lowest rate since 1956. A big part of the recent rise in the S&P 500 Index could be simply that the earnings yield for the Index is 3.83%, suggesting that stock earnings are a better deal than buying bonds.

Another odd positive in the economic reports for the week was that the U.S. Consumer Price Index now has a 12-month rise of 2.5%. A bit of inflation, long missing from the economic records, tends to drive consumer purchases up as the perception that things will be more expensive in the future causes consumers to buy now and pay later. That 2.5% inflation rate also effectively reduces future payments by the same amount.

The wild cards of more tariff wars and a possible pandemic remain outstanding but for the moment, the economy seems to have leveled off at a near-record high rate. Unfortunately, that causes serious economists and observers like us to worry.

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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