DECEMBER 2019

CONSUMERS KEEP GROWTH AFLOAT

As earnings season came to a close in November, roughly 80% of Standard and Poor's 500 companies beat earnings expectations, though estimates had largely been revised downward throughout the year. Helped by earnings beating estimates, the domestic equity market rally continued in November as the Standard and Poor's 500 Index pushed 3.6% higher. While earnings season was seen as a win, helping markets to look past geopolitical risks, earnings were largely flat in terms of growth relative to the third quarter of last year. International markets largely posted strong gains during the month as well with the MSCI World Index returning 2.8% on the month (though emerging markets posted modestly negative returns at -0.1%).

Though advanced GDP estimates came in positive (1.9% growth, adjusted for inflation), growth continues to slow. In addition, business spending fell for the second straight quarter, suggesting that executives are increasingly hesitant to spend amid slowing global growth and trade tensions. Conversely, wage growth, new jobless claims, and consumer spending all were strong during November. Coupled with record refinances closing as homeowners took advantage of historically low mortgage rates, there is optimism that increased discretionary income will continue to help support consumer spending.

Treasury yields remained little changed again in November finishing the month within 2 basis points of their opening levels. With the Federal Reserve having cut rates three times this year, they have signaled that they are taking a more wait and see approach. As such, we do not foresee much further movement on rates this year. Markets agree as analysts show market participants are pricing in just a four percent chance of a Federal Reserve rate hike at their meeting later this month.

On the US economic and political fronts, we are watching several key items that may hold back a Santa Claus rally as we move into the homestretch of 2019. In the forefront though, we continue to monitor the US-China trade negotiations as they seem to have (as of writing this) reached an impasse with President Trump signaling that he may table discussions until after the elections. This news has sent markets lower to start December, and gives investors pause as fear of escalation of tariffs could spook global markets. We are hoping for further clarification of these statements, or continued progress, in the coming days. Absent progress, we look for at least a temporary agreement for no further escalation of tariffs until leaders come back to the table.

In the short-term we are not making substantive changes to clients' overall portfolios. We continue, however, to where appropriate rebalance and derisk as markets continue to come up against all-time highs. We are continually monitoring the markets and economic conditions and we will address making any appropriate changes with clients when we believe economic conditions warrant.

FOCUSED ON YOUR FINANCIAL INDEPENDENCE

LAST MONTH'S KEY ECONOMIC DATA

EMPLOYMENT

We added 128,000 jobs in October and the unemployment rate was little changed at 3.6%. The number of unemployed persons is little changed at 5.9 million. The labor participation rate is up slightly to 63.3%.

FOMC/INTEREST RATES

The Federal Open Market Committee cut rates by another 25-basis points in October for the third time this year and signaled a pause in further cuts unless the economic outlook changes materially. The target range for the federal funds rate now stands at 1.50% to 1.75%.

GDP

According to estimates real GDP rose at an annual rate of 1.9% in the third quarter, down from 2.0% in the second quarter.

INFLATION AND CONSUMER SPENDING

The *Consumer Price Index* increased 0.4% in October. Over the last 12 months, CPI rose 1.8%. Core prices, which excludes food and energy prices, rose 2.3% year over year.

According to the *Producer Price Index*, the prices companies receive for goods and services decreased 0.3% in September. Producer prices have increased 1.4% over the 12 months ended in September.

HOUSING

Existing home sales rose 1.9% in October, a slight recovery from the declines seen in September. Year over year, existing sales are up 4.6%. The median price for existing homes in October was $270,900, up 6.2% from a year ago.

MANUFACTURING

Industrial production in the US dropped 1.1% year-on-year in October of 2019, following a 0.1 percent decline in the previous month. It is the biggest annual decrease in industrial output in three years, due to falls in manufacturing (-1.5%) and utilities (-4.1%). On the other hand, production rose 2.7% in the mining sector. Industrial production in the US averaged 3.72% from 1920 until 2019.

IMPORTS AND EXPORTS

US trade deficit narrowed to $52.5 billion in September from $55 billion in the previous month, matching market expectations. It is the lowest trade gap since April as German and Chinese imports declined and the US reported its first petroleum surplus since 1978. Exports declined 0.9% led by soybeans and automobiles, while imports slumped 1.7% due to purchases of cell phones, toys, games & sporting equipment, semiconductors and automobiles.

INTERNATIONAL MARKETS

International markets broadly moved higher on the month with the MSCI World Index returning 2.8% (though emerging markets were down -0.1%).

CONSUMER CONFIDENCE

Consumer confidence, as measured by The Conference Board Consumer Confidence Index®, decreased in November, following a slight decrease in October. The Index now stands at 125.5, down from 126.1 in October.

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Data sources: Economic: Based on data from U.S. Bureau of Labor Statistics (unemployment, inflation); U.S. Department of Commerce (GDP, corporate profits, retail sales, housing); S&P/Case-Shiller 20-City Composite Index (home prices); Institute for Supply Management (manufacturing/services). Performance: Based on data reported in WSJ Market Data Center (indexes); U.S. Treasury (Treasury yields); U.S. Energy Information Administration/Bloomberg.com Market Data (oil spot price, WTI Cushing, OK); www.goldprice.org (spot gold/silver); Oanda/FX Street (currency exchange rates). News items are based on reports from multiple commonly available international news sources (i.e. wire services) and are independently verified when necessary with secondary sources such as government agencies, corporate press releases, or trade organizations.