



Atlas BROWN
FAMILY WEALTH MANAGEMENT

(502) 271 2931

David B. Russell

drussell@atlasbrown.com

In this month's recap: As 2019 ends, the U.S. and China agree to a phase-one trade deal, and stocks, gold, and oil all advance.

Monthly Economic Update

Presented by David Russell, CRPS, AIF, January 2020

THE MONTH IN BRIEF

Stocks rallied in December, closing out a decidedly positive year on Wall Street. The S&P 500 added another 2.86% last month, rising 28.88% for 2019. What helped the market? The trade dispute between the U.S. and China cooled a bit, as both nations took what was characterized as an initial step toward a potentially larger trade accord. Also, some fundamental indicators hinted that the economy might be picking up rather than slowing down. These factors put investors in a buying mood as the year ended. In Washington, the Federal Reserve left interest rates alone, and a new law was passed impacting retirement accounts. A considerable number of overseas stock markets advanced, and the broad commodities sector fared well.

DOMESTIC ECONOMIC HEALTH

After a year-and-a-half of tariffs and stern talk, the world's two largest economies reached a preliminary trade pact, which may lead to a larger one in 2020. On December 13, U.S. and Chinese officials stated that a deal had been reached. U.S. Trade Representative Robert Lighthizer told reporters that this phase-one deal would be signed in Washington in January, and President Donald Trump noted that negotiations toward the next phase would start "immediately." In the big picture, the phase-one deal calls for China to buy more U.S. crops and provide better protection for U.S. intellectual property, in exchange for reduction and cancellation of some tariffs on Chinese products. As part of the agreement, the U.S. halved an existing 15% import tax on \$120 billion of Chinese goods and canceled new tariffs scheduled for December 15. The 25% tariffs that both nations implemented in spring 2019 may soon be reduced or removed.²

Federal Reserve policymakers decided to hold the benchmark interest rate steady last month; the vote was unanimous. According to the latest Fed dot-plot (a chart the central bank uses to convey its benchmark interest rate outlook), 13 of 17 Federal Open Market Committee officials think that the FOMC will leave short-term interest rates alone for all of 2020.³

November hiring numbers were impressive, even given the influence of striking General Motors employees returning to their jobs after a fall labor dispute. Nonfarm payrolls swelled with 266,000

net new jobs in the eleventh month of the year, according to the Department of Labor; wages were up 3.1% year-over-year. Both the headline jobless rate and the broader U-6 rate, measuring unemployment and underemployment, ticked down 0.1% in November, to a respective 3.5% and 6.9%.⁴

Retail sales were up 3.4% this holiday season compared to last, according to Mastercard's annual November 1-December 24 snapshot. Online retailers saw a year-over-year gain of 18.8%. In the month of November, overall retail sales advanced 0.2% by the estimation of the Census Bureau, leaving the 12-month gain at 3.5%. The Department of Commerce said consumer spending rose 0.4% in November; consumer incomes advanced 0.5%.^{4,5}

The two closely watched consumer confidence benchmarks went different ways in December. Ascending from a final November mark of 96.8, the University of Michigan's Consumer Sentiment Index finished December at 99.3. The Conference Board's index came in at 126.5, down from 126.8 a month before.^{4,6}

Activity in America's factory sector had slowed in November, a bit more than it did in October. That was the conclusion economists drew from the latest manufacturing Purchasing Managers Index from the Institute for Supply Management, which had a November reading of 48.1, down 0.2 points from a month earlier. ISM's November Non-Manufacturing PMI came in at 53.9, as opposed to 54.7 in October; any number above 50 indicates sector growth.⁴

At mid-month, the University of Michigan polled households to determine what they thought the inflation rate would be over the next five years. The consumer consensus was 2.3%, and that was higher than the 2.1% headline inflation shown in the federal government's latest Consumer Price Index (November). That 2.3% estimate did precisely match annualized core inflation through November (the core CPI factors out volatile food and energy costs).⁴

In late December, President Trump signed the Setting Every Community Up for Retirement Enhancement (SECURE) Act into law. The SECURE Act raises the age for Required Minimum Distributions (RMDs) from traditional retirement accounts from 70½ to 72 (this new rule applies only to individuals who turn 70½ in 2020 or later). It also allows seniors with earned income to continue contributing to traditional retirement accounts after age 70½.⁷

GLOBAL ECONOMIC HEALTH

Boris Johnson won a landslide victory in the United Kingdom's December general election, and the Conservative Party won more seats in Parliament than it had at any time since the late 1980s. Because of these developments, the U.K. appears poised to meet its January 31 deadline for the Brexit. If the Brexit occurs this month, the U.K. and the European Union will face a joint challenge: meeting a December 31 deadline to solidify a new, lasting trade deal between both parties. The E.U. has already cautioned the U.K. that a year may not be enough time to do this, and if that proves true, the U.K. would have two choices: it could ask for an extension of the Brexit transition period, or it could make a "hard" Brexit, which might amount to an economic shock for both the U.K. and the E.U.⁸

Could China's economy expand less than 6% this year? Last month, a Nikkei survey of 26 Asian economists arrived at a consensus forecast of 5.9% growth for China in 2020 and 5.7% growth in 2021. Tariffs are but one potential economic drag for the P.R.C.; others include weakening business and real estate investment as well as a declining working-age population. Some of the economists Nikkei polled thought these conditions would motivate China's central bank to cut interest rates this year.⁹

Looking back on 2019, the International Monetary Fund notes that gross domestic product in the euro area and the United States fell about 1% from 2018 levels. Worldwide, less demand for durable goods translated into reduced industrial output. Sensing weaker economic activity, the Federal Reserve, the European Central Bank, and central banks in India, Russia, and Brazil all lowered key interest rates last year.¹⁰

WORLD MARKETS

Stock benchmarks around the world posted December gains. In China, the Shanghai Composite advanced 6.20%, Hong Kong's Hang Seng rose 7.00%, and South Korea's Kospi Composite was up

5.25%. Europe's leader was Russia's RTS index, up 7.68%. In the Americas, Brazil's Bovespa improved 6.85%. Three often-watched European indices – Germany's DAX, France's CAC 40, and Spain's IBEX 35 – had respective gains of 0.10%, 1.23%, and 2.11%. Japan's Nikkei 225 added 1.56%. MSCI's EAFE index (tracking the performance of developed stock markets beyond the U.S. and Canada) rose 3.47%.^{11,12}

Australian traders had less to cheer about. Both of the big Australian equity indices fell in December, with the ASX 200 slipping 2.36%, and the All Ordinaries, 2.10%.¹¹

COMMODITIES MARKETS

Overall, December was a strong month for the commodities sector. Oil ended the year at \$61.19 a barrel on the New York Mercantile Exchange (NYMEX), surging 10.38% in a month. Heating oil advanced 8.04%; unleaded gasoline, 6.58%. On the other hand, natural gas slipped 5.84%.¹³

Turning to metals, gold rose 3.94% for December, closing out the year at \$1,520.20 an ounce on the NYMEX. Silver gained 5.60% last month, taking its NYMEX per-ounce price to \$17.92 on New Year's Eve. Platinum improved 8.02% in December; copper, 6.18%. The U.S. Dollar Index took a 1.81% December fall.^{13,14}

Now, a look at the farm and livestock commodities. Lean hogs led the way, their value rising 14.92% in December; coffee gained 11.53%. Other gainers: soybeans, 7.64%; cotton, 6.43%; sugar, 4.56%; corn, 4.52%; wheat, 2.24%. Cocoa was an exception, losing 5.73%.¹³

REAL ESTATE

As 2019 ended, home loans were cheaper than they were at the start of the year. Looking at Freddie Mac's Primary Mortgage Market Survey, the average interest rate on a 30-year, fixed-rate mortgage was 3.74% on December 26, which was up from 3.68% a month earlier, but well under the 4.51% mean rate seen on January 3. The average interest rate on 15-year, fixed-rate home loans took a similar path: averaging 3.99% on January 3, it was at 3.15% on November 27 and at 3.19% on December 26.¹⁵

30-year and 15-year fixed rate mortgages are conventional home loans generally featuring a limit of \$484,350 (\$726,525 in high-cost areas) that meet the lending requirements of Fannie Mae and Freddie Mac, but they are not mortgages guaranteed or insured by any government agency. Private mortgage insurance, or PMI, is required for any conventional loan with less than a 20% down payment.

Existing home sales, though, remained sluggish. The National Association of Realtors reported a 1.7% November decline, following a revised 1.5% retreat in October. The Census Bureau announced that new home sales increased 1.3% in November, partly making up for a 2.7% dip.^{4,16}

New home construction was up in November. Housing starts rose by 3.2%, and the rate of building permits issued accelerated by 1.4%.⁴

TIP OF THE MONTH



Some individuals presume that a properly written will can help their estates avoid probate. That is inaccurate. There are steps that may exempt certain assets from the probate process (trusts, beneficiary forms, jointly held or transfer-on-death accounts), but a will alone does not provide protection from probate.

LOOKING BACK, LOOKING FORWARD

All three of the big Wall Street stock indices added to their year-to-date gains in December. The Nasdaq Composite ended the year at 8,972.60; it outperformed both the Dow Jones Industrial

Average and S&P 500 last month. The S&P finished 2019 at 3,230.78; the Dow, at 28,538.44. ¹⁷

MARKET INDEX	Y-T-D CHANGE	1-MO CHANGE	2018
DJIA	+22.34	+1.74	-5.63
NASDAQ	+35.23	+3.54	-3.88
S&P 500	+28.88	+2.86	-6.24

BOND YIELD	12/31 RATE	1 MO AGO	1 YR AGO
10 YR TREASURY	1.92	1.78	2.69

Sources: barchart.com, wsj.com, treasury.gov – 12/31/19 ^{17,18,19}

Indices are unmanaged, do not incur fees or expenses, and cannot be invested into directly. These returns do not include dividends. 10-year Treasury yield = projected return on investment, expressed as a percentage, on the U.S. government's 10-year bond.

A phase-one trade pact between the U.S. and China, scheduled to be signed on January 15 in Washington, could reassure stock market bulls. For that matter, so could the Federal Reserve's ongoing market activity that is expanding its balance sheet once again. It will be interesting to see if these factors can help the market maintain its momentum in January, as the next earnings season gets underway. ²⁰

QUOTE OF THE MONTH



“Sometimes a slow gradual approach does more good than a large gesture .”

CRAIG NEWMARK

UPCOMING RELEASES

Here are the news releases and events Wall Street will have an eye on during the rest of the first month of the new decade: November factory orders (1/7), the latest monthly employment snapshot from the Department of Labor (1/10), the December Consumer Price Index (1/14), the December Producer Price Index (1/15), December retail sales (1/16), the initial January Consumer Sentiment Index from the University of Michigan and the Census Bureau's report on December residential construction activity (1/17), a National Association of Realtors report on December home buying (1/22), the Conference Board's newest index of leading indicators (1/23), the Census Bureau's look at December new home sales (1/27), December durable goods orders and the January Consumer Confidence Index from the Conference Board (1/28), the latest monetary policy statement from the Federal Reserve, plus the NAR's December Pending Home Sales Index (1/29), the federal government's first estimate of fourth-quarter gross domestic product (1/30), and December consumer spending, the December PCE price index, and the final January Consumer Sentiment Index from the University of Michigan (1/31).

THE MONTHLY RIDDLE



It is met by feet in the morning and sees few feet in the night . It may shake as if it is angry, but it will never bite . What is it?

LAST MONTH'S RIDDLE: A trail, a union, together tied. Come across me and you will find, you cannot change the course I'm on, without me you cannot travel on. What am I?

ANSWER: Railroad tracks.

David Russell, CRPS, AIF may be reached at 502.271.2931 or Drussell@atlasbrown.com
www.AtlasBrown/RussellGroup

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