*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 Porte Brown Wealth Management, 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]

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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.*

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**Know someone who could use information like this?**

Please feel free to send us their contact information via phone or email. (Don't worry – we'll request their permission before adding them to our mailing list.)

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Indices do not incur management fees, costs, or expenses. Investors cannot invest directly in indices. All economic and performance data is historical and not indicative of future results. The Dow Jones Industrial Average is a price-weighted index of 30 actively traded blue-chip stocks. The NASDAQ Composite Index is a market-weighted index of all over-the-counter common stocks traded on the National Association of Securities Dealers Automated Quotation System. The Standard & Poor's 500 (S&P 500) is a market-cap weighted index composed of the common stocks of 500 leading companies in leading industries of the U.S. economy. NYSE Group, Inc. (NYSE:NYX) operates two securities exchanges: the New York Stock Exchange (the "NYSE") and NYSE Arca (formerly known as the Archipelago Exchange, or ArcaEx®, and the Pacific Exchange). NYSE Group is a leading provider of securities listing, trading and market data products and services. The New York Mercantile Exchange, Inc. (NYMEX) is the world's largest physical commodity futures exchange and the preeminent trading forum for energy and precious metals, with trading conducted through two divisions – the NYMEX Division, home to the energy, platinum, and palladium markets, and the COMEX Division, on which all other metals trade. The SSE Composite Index is an index of all stocks (A shares and B shares) that are traded at the Shanghai Stock Exchange. The Hang Seng Index is a free float-adjusted market capitalization-weighted stock market index that is the main indicator of the overall market performance in Hong Kong. The Korea Composite Stock Price Index, or KOSPI, is the representative stock market index of South Korea: the index of all common stocks traded on the Stock Market Division of the Korea Exchange. The RTS Index (Russia Trading System) is a free-float capitalization-weighted index of 50 Russian stocks traded on the Moscow Exchange, calculated in U.S. dollars. The Bovespa Index (Portuguese: Índice Bovespa) best known as Ibovespa is the benchmark index of about 60 stocks that are traded on the B3 (Brasil Bolsa Balcão). The DAX 30 is a Blue-Chip stock market index consisting of the 30 major German companies trading on the Frankfurt Stock Exchange. The CAC-40 Index is a narrow-based, modified capitalization-weighted index of 40 companies listed on the Paris Bourse. The IBEX 35 is the benchmark stock market index of the Bolsa de Madrid, Spain's principal stock exchange. Nikkei 225 (Ticker: ^N225) is a stock market index for the Tokyo Stock Exchange (TSE). The Nikkei average is the most watched index of Asian stocks. The MSCI EAFE Index was created by Morgan Stanley Capital International (MSCI) that serves as a benchmark of the performance in major international equity markets as represented by 21 major MSCI indices from Europe, Australia, and Southeast Asia. The S&P/ASX 200 index is a market-capitalization weighted and float-adjusted stock market index of stocks listed on the Australian Securities Exchange. The index is maintained by Standard & Poor's and is considered the benchmark for Australian equity performance. Established in January 1980, the All Ordinaries is the oldest index of shares in Australia. It is made up of the share prices for 500 of the largest companies listed on the Australian Securities Exchange. The U.S. Dollar Index measures the performance of the U.S. dollar against a basket of six currencies. Additional risks are associated with international investing, such as currency fluctuations, political and economic instability and differences in accounting standards. This material represents an assessment of the market environment at a specific point in time and is not intended to be a forecast of future events, or a guarantee of future results. 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