Newsletter

State of the Economy

December 2019

The stock market continues to climb as all three major indices are sitting at or near all- time highs. Stock prices improved significantly since last December. At this time last year, the market was crumbling under a potential trade war and free falling into a correction. Currently, the impeachment of President Donald Trump clouds the future of the United States and its economy. Nonetheless, the stock market has consistently proven its resiliency, especially under the protection of the Federal Reserve. The Fed stepped in and lowered interest rates on three different occasions in 2019 to help ease recession fears. Perhaps equally as important, a truce was reached with China in the trade war earlier this month with confirmation of the first phase of a deal.

The backdrop for strong stock prices is not entirely due to improvements in trade discussions. This past quarter brought stronger than anticipated economic results. The employment report for November showed a surprising gain of 266,000 jobs leading to a drop in the unemployment rate. At 3.5%, the rate is close to a 50-year low, while wages grew over 3% for the year. U.S. business activity improved to a five-month high in December. Additionally, U.S. household spending rose in November, a sign that a key driver of the economy remained solid heading into the holiday season. Consumer spending accounts for more than two-thirds of the U.S. economic output and is a substantial reason the economy continues to expand.

The Federal Reserve expressed their confidence with the economy after leaving interest rates unchanged during their policy meeting earlier this month. Fed officials felt comfortable with the current monetary policy heading into 2020 and believe rates are low enough to stimulate growth. Federal Reserve Chairman, Jerome Powell, credited recent market interventions by the Fed, including adding reserves back into the banking system as helping keep short term interest rates stable. Previously, the Fed was cautious about economic growth and cut rates on three different occasions in 2019. Going forward, the Fed indicated they will remain flexible if events require them to act.

The positive momentum of economic growth stretched past the U.S. as well. New data showed improvements in the Chinese economy buoyed by the progress in the trade deal negotiations. Factory production and consumer spending each strengthened in November alleviating investors' concerns. In Europe, the Stoxx Europe 600 index reached a new high this month, its first in four years, while the U.K. stock market in particular increased significantly. The U.K. market rose after Prime Minister Boris Johnson's resounding win in the general election. The result paved the way for the U.K. to leave the European Union next year. The political uncertainty clearly weighed on the country's economy since the 2016 Brexit referendum.

As the stock market experiences its best run in six years, some individual investors are either exiting the asset class or missing out on the rewards entirely. Individual investors are fleeing stock funds at the fastest pace in decades. Investors pulled $135.5 billion from U.S. stock-focused mutual funds and exchange-traded funds as of early December, the biggest withdrawals on record. This is according to data provider Refinitiv Lipper, which tracked the data going back to 1992. The outflows are a sign that investors are refraining from chasing the market's strong performance. Some investors certainly maintain concerns over a potential impeachment of the President as well as a possible recession.

In the short term, investors bailing on equities is potentially a good sign for the long-running bull market. With hundreds of billions of dollars recently shifted into bonds and money market funds, a major headwind such as another compromise in the trade deal could bring money back into stocks.

Let's keep our fingers crossed that is the case. Have a happy and healthy New Year!

Sincerely,

Matthew Bagell, CPA
BJL Wealth Management, LLC
601 Route 73 North | Suite 400 | Marlton, NJ 08053

Financial Tip Videos

Contact Us: Office 856-355-5905 | Fax 856-810-3995 | www.bjlwealth.com

Source: https://advisorscapital.com/portfolio/whipsawing-headlines/