Bob LeClair's Finance and Markets Newsletter

For the week ending: February 1, 2020

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THE ECONOMY

News about the worldwide spread of the coronavirus and the winding down of the President's impeachment trial in the Senate dominated the headlines last week. There wasn't much room left over on TV, radio, or the press for economic news – too bad.

The *Bureau of Economic Analysis* released its preliminary report on Q4 2019 Gross Domestic Product (GDP) for the U. S., and it pretty much confirmed that our economy is running near its potential. GDP increased by 2.1% in the fourth quarter, nearly matching its growth for most of 2019.

Taking a closer look at some of the details in the report showed the following:

- **Consumers** – continued to do most of the heavy lifting as far as growth was concerned (+1.2%). That shouldn't be too surprising, however, as job growth has been steady and real wages, particularly at lower income levels, have been increasing.

- **Net Exports** – were a positive factor in the report for the first time in several months. That's not likely to continue, however, as the strength of the dollar will make American exports more expensive for foreign buyers.

- **Fixed investment** – an obvious headwind in the report, contributing virtually nothing to the overall outcome. Small gains in residential investment were offset by weakness in nonresidential spending. Manufacturers were already reluctant to spend on capital investment, and the flu situation won't do much to increase their confidence.

- **Inflation** – continues to run below the Fed's target of two percent annually. For Q4 it ran at a 1.5% rate compared with 1.7% in the previous quarter.

Bottom Line: The U. S. economy continues to grow at or near its potential of two percent annually, and there's not much reason to expect it to change in the foreseeable future. The boost we got from the 2017 tax bill has pretty much run its course, and even the China virus, unless it worsens dramatically, won't put much of a dent in our overall economic situation.

THE MARKETS

Market Indicator	Week's Change	Year-to-Date Change
Dow Jones Industrials	-2.53%	-0.99%
S & P 500 Stock Index	-2.12%	-0.16%
NASDAQ Composite	-1.76%	+1.99%

The China virus, as noted above, may not have a severe long-term impact on the overall U. S. economy, but it certainly has rattled the confidence of short-term traders. A big drop in share prices last Monday was just about equally offset by gains in the middle of the week. Worsening reports about the coronavirus on Friday sent the Dow down by more than six hundred points.

The China virus will have a significant impact on some sectors more than others. Airlines, for example, have signaled that they're concerned enough to cancel flights to/and from China for the next couple of months. Casino stocks, especially those with significant operations in Macau, were hard hit. Apple, with significant manufacturing operations in China, saw it shares dip quite a bit, even after reporting strong quarterly results last week.

Last week's losses wiped out virtually all of the gains for the major indicators for the month of January. If you're a believer in the theory known as the "January Effect" – that what happens to share prices in January is a good predictor of the year as a whole – you've got to be disappointed.

The other major event affecting the markets last week was the Fed holding steady on short-term interest rates. It was a unanimous decision by the FOMC Committee, though one that was likely to raise the ire f President Trump, who has consistently called for lower, even negative, rates.

Adding to the markets' fears over the weekend was the long-anticipated departure of the U. K. from the European Union (EU). That took place on Friday, January 31, 2020, and left many concerned as to what the impact would be come Monday morning. Many political, cultural, and economic uncertainties remain, and it will take some time to sort out the final results.

Crude oil prices fell sharply, putting pressure on the shares of oil companies like Exxon and Chevron. We already have a glut of oil in the marketplace, and that won't be helped by falling demand as travel worldwide declines.

FINANCIAL FACT OF THE WEEK

The nation's savings rate was 7.6% in December 2019. That's a surprisingly strong reading given that consumers were so active in terms of spending. The impact on household balance sheets has got to be very positive.

As always, if you have any questions and would like to discuss this or any other topic, please feel free to call us.

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