

# BULLS & BEARS

By: Sean McCreery, AFIM

October 2019

## Two Handed Economy

It was President Harry S. Truman who once quipped, “Give me a one-handed economist. All my economists say, ‘on one hand...but on the other.’” This year the U.S. economy has been the perfect example of the two-handed economist. The consumer and service side of the economy has remained resilient, being the main contributor to the growth in GDP, while business and manufacturing activity has continued to lag as the year has worn on. Looking at the main factors that tend to affect the consumer you begin to understand why they remain confident. Unemployment is at the lowest level we’ve seen in almost 50 years. Wage growth, though below what we’ve seen in past recoveries, is at the highest level of this recovery near 3%. The stock market is near all-time highs and interest rates and inflation remain near historic lows. On the other hand, businesses and manufacturing have continued to be hamstrung by a few growing issues. The tight labor market has made it difficult for companies to find workers for expansion and they have delayed or not implemented plans for investment because of this. The higher wages that have helped consumers are beginning to eat into margins of businesses that are trying to retain or hire quality workers. Trade uncertainties are probably the main culprit of business activity weakness as supply chains have been disrupted, input costs have been raised, and demand from international markets has waned.

## Trade Truce?

Throughout most of the third quarter, tensions between the U.S. and China were ratcheted up. Each side accused the other of not living up to their end of the deal that reportedly was close to being finalized. Tariffs were then pushed to above 20%, on average, continuing the shadow that has been cast over the global economy since the summer of 2018. There is still hope that a deal can get done, and the most recent news has been more positive. Reportedly, “Phase 1” of a deal could be coming in the next few weeks, but there is little to no detail as to what that deal might entail. Certainly, this slow progress toward relieving trade tensions continues to hinder economic growth, specifically the manufacturing sector not only here in the U.S., but around the globe.

## Easy Money

Given the presence of global economic weakness, central banks have been forced to react. Accommodative monetary policy that began in January of this year has continued. The Federal Reserve Open Market Committee (FOMC) has now cut their depository rate twice and is widely expected to cut it at least once more. Central banks around the globe have also taken an accommodative tone similar to the FOMC’s. Recent market data shows the efforts by central banks to stimulate growth and inflation have not yet driven material improvements in market interest rate expectations. Further monetary easing will remove a modest headwind to growth but should not be a major catalyst for higher risk asset returns. A trade truce may take risk assets higher, but we believe that trade complications will be a continued headwind for some time as the current presidential administration is focused on better trade deals with multiple countries and regions. Therefore, our team’s best ideas generally favor moving up in quality as we firmly believe we are in the late-cycle phase of this business cycle.

Please contact us at 1-855-829-7192 if we may be of assistance.

\* Not a Deposit \* Not FDIC Insured \* Not guaranteed by the bank \* May lose value \* Not insured by any government agency

## Market Indicators

### 9/30/19 Year-to-Date Change

S&P 500	20.55%
NASDAQ	21.54%
Russell 2000	14.18%

### Interest Rates

	<u>9/30/19</u>	<u>12/31/18</u>
10-Year Treasury Note	1.67%	2.68%
3-Month Treasury Bill	1.84%	2.45%



**First United**  
Bank & Trust