Wealth Management International, Ltd.
Proactive Investment Management & Financial Planning

Weekly Economic Recap & Comment
Week Ended December 28, 2018

Because of the holidays, it was a very light week for economic news. The main report was the weekly data on first-time applications for unemployment benefits, which is a proxy for layoffs. In the release, ***initial jobless claims in the week ended December 22*** fell by a seasonally-adjusted 1,000 to a level of 216,000, and the four-week moving average of claims declined to 218,000. Those and other recent declines suggest that the worrisome rise in claims during November was just an aberration, and that layoffs remain quite limited. Coupled with other data showing continued strong job creation, low unemployment, and rising wages, the initial claims report helps confirm that the labor market is still extraordinarily strong. That should help keep the current economic expansion on track and prompt further growth in corporate profits, so we are maintaining a significant exposure to equities for the time being (in our strategies that include them). The problem is that demand has been rising faster than supply in a wide range of industries, putting upward pressure on prices and interest rates. We still think broad, long-standing factors such as population aging and new technologies will ultimately limit how bad inflation will get. Recent data suggest inflation could already be cooling. All the same, excess demand has created a risk that the Federal Reserve might hike interest rates too far, or that rising costs could cut into corporate profits and short-circuit the economic expansion, compounding the slowdown in growth overseas. There are also yellow flags in the government policy environment, such as risky posturing in national security and international trade disputes. Finally, we think political risks are increasing as investigators make more progress in their examination of high-level scandals. We began to respond to these future risks by modestly cutting our exposure to stocks and other volatile assets across all our strategies in August, well ahead of the market turmoil that began when other investors finally started to focus on the risks and then overreacted. We think the selling has been excessive and could easily be reversed when investors realize those risks aren't necessarily imminent. Still, in case the market keeps falling, we're now looking for opportunities to cut risk further.

Even though we think the risks identified above are more likely to impact the economy in the future than in the present, it's important to remember that the recent market volatility itself could soon weigh on activity, in a kind of self-fulfilling prophecy. One significant risk would be if the stock volatility starts to undermine consumer or corporate optimism. As a reminder of that possibility, the Conference Board this week announced that its ***December consumer confidence index*** fell back to 128.1, after a revised November reading of 136.4 and a 137.9 reading in October. The back-to-back declines suggest economic growth is likely to moderate in early 2019. However, it's reassuring that the October reading was the highest in 18 years, and the December figure was still reasonably close to it. Overall confidence remains historically high. In addition, the data showed that the subindex on consumers' view of current conditions only fell slightly in December, to 171.6 from 172.7 in the previous month. That helps confirm that current economic conditions remain very favorable. The subindex on consumers' future expectations fell more dramatically, to 99.1 from 112.3 in November, but our analysis of historical relationships suggests the expectations index is much less important as an indicator of trends in the financial markets.

As we've mentioned before, a lot of the current concern about economic growth stems from the slowing housing market, which has been hit by limited inventory, high prices, and increasing interest rates. However, even though the volume of sales has been softening, data this week showed that current homeowners are continuing to see their houses rise in value. The ***October S&P CoreLogic Case-Shiller 10-City Home Price Index*** rose by a seasonally-adjusted 0.5%, accelerating from its 0.4% rise in September, its 0.2% gain in August, and its 0.1% increase in July. The data showed average prices in October were up a healthy 4.7% year-over-year. That was modestly weaker than the annual gains of 6.0% or more over the last year, but we suspect prices are still rising fast enough to keep homeowners feeling like they're getting wealthier, even as the stock market remains volatile. We think increasing housing wealth will help encourage more consumer spending and help keep the economic expansion on track.

Finally, in data from the nation's energy sector, ***commercial crude oil inventories in the week ended December 22*** fell by 0.046 million barrels, marking their fourth straight weekly decline. Nevertheless, total stockpiles remained relatively high at 441.411 million barrels. In fact, total inventories still

23131 North Lake Pleasant Parkway | Peoria, AZ 85383 | 623-875-5204 |1-888-91-ASSET

stood 1.8% above their five-year moving average (an industry benchmark that suggests supply and demand are in balance). The report also said ***domestic crude oil production in the week ended December 22*** rose back up to its record high of 11.700 million barrels per day. In spite of continued U.S. economic growth, rising usage around the world, and reduced exports from big producers (such as Iran and Venezuela), it's now clear that high production and excess inventories could keep weighing on oil prices. We have therefore started to exit the broad commodity funds that we have been holding in some of our more aggressive strategies.

Patrick Fearon, CFA
Chief Investment Officer

Upcoming U.S. Data

Date	ET	Release	For	Consensus Forecast	Prior
2-Jan	7:00	MBA Mortgage Applications Index	29-Dec	NA	NA
3-Jan	8:15	ADP Employment Change	Dec	170K	179K
3-Jan	8:30	Continuing Claims	29-Dec	NA	1701K
3-Jan	8:30	Initial Claims	29-Dec	220K	216K
3-Jan	10:00	Construction Spending	Nov	0.30%	-0.10%
3-Jan	10:00	ISM Manufacturing Index	Dec	57.8	59.3
3-Jan	14:00	Auto Sales	Dec	NA	4.01M
3-Jan	14:00	Truck Sales	Dec	NA	9.48M
4-Jan	8:30	Nonfarm Payrolls	Dec	180K	155K
4-Jan	8:30	Nonfarm Private Payrolls	Dec	175K	161K
4-Jan	8:30	Avg. Hourly Earnings	Dec	0.30%	0.20%
4-Jan	8:30	Unemployment Rate	Dec	3.70%	3.70%
4-Jan	8:30	Average Workweek	Dec	34.5	34.4
4-Jan	10:30	EIA Natural Gas Inventories	29-Dec	NA	-48 bcf
4-Jan	11:00	EIA Crude Oil Inventories	29-Dec	NA	-0.05M

Source: Briefing.com