

# ECONOMY

Production, manufacturing decline largest since May 2018

THINK STRATEGICALLY:

## The Ventriloquist

U.S., China Trade Deal Primary Driver of Six-Week Rally; Trump Impeachment Proceedings Underway

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### The Ventriloquist: A puppet as president

Did you know that ventriloquism was initially a religious practice? Ventriloquism comes from the Latin words *venter* (belly) and *loqui* (speak). The voices produced were thought to be of the dead, who lived inside the ventriloquist. Ventriloquists would then interpret the sounds as if they were able to speak to the dead, as well as see the future. Not until the turn of the 19th century did ventriloquism become a performance art. As the Trump administration began facing impeachment proceedings, the president has been behaving like a ventriloquist Russian puppet.

We must wonder under what analysis the president of the United States uses when he makes a call to a then-unknown incoming president of the Ukraine to seek assistance to activate an investigation. President Trump asked for information on Hunter Biden, the son of former Vice President Joe Biden, who had served with Burisma Holdings, the largest natural gas producer

in Ukraine. During the United States' recent history, we have never seen a U.S. president who appears so aligned with Russian interests as President Trump is. It seems at every opportunity he has favored the views of Russian President Putin over U.S. intelligence or what the foreign policy community advises. Now that the impeachment proceedings are underway, it will be quite difficult for President Trump to hide his real intentions by seeking some deal with Ukraine, knowing that the investigation would have an impact on the U.S. 2020 elections in some shape or form. Finally, as a longtime Republican incendiary, Roger Stone was found guilty of lying to U.S. Congress about the 2016 Russian intervention into the U.S. presidential elections. With all eyes now on President Trump, let us see what the Ventriloquist does now.

### Week in markets: Rally continues record highs; MAGA takes a hit

The U.S. stock market fueled its rally

and reached record highs all across the major indices for the sixth week in a row. Some inside the government, including White House Economic Adviser Larry Kudlow, have said Washington and Beijing were close to a deal. While others seem to point out that negotiations are deftly continuing. For most investors, the finalization of a trade deal between the U.S. and China is the primary driver of this six-week rally. This past October, U.S. industrial production fell 0.8 percent, after declining 0.3 percent in September, which amounts to 1.1 percent in 60 days. Additionally, manufacturing production decreased 0.6 percent in October, directly linked to the 7.1 percent drop in the output of automobiles, SUVs and parts, which were affected by the General Motors strike. The decreases for total industrial production, manufacturing, and motor vehicles and parts were the largest since May 2018.

Additionally, the U.S. Manufacturing Production Index is at 46.20, which is less than the 47.30 the prior month and down from 59.90 one year ago. This is a year-over-year loss of minus-22.87 percent.

On the other hand, not all is good news, as the International Monetary Fund forecasts global economic growth will be at 3.0 percent for 2019, its lowest since 2008-09, and a 0.3 percentage point drop from the April 2019 World Economic Outlook. However, growth is expected to be 3.4 percent in 2020; the forecast points to improved performance in several emerging markets in Latin America and the Middle East.

The Dow Jones Industrial Average (DJIA) closed at 28,004.89 for a gain of 323.59 points, or 1.17 percent, and a year-to-date (YTD) return of 20.10

percent. In addition, the S&P 500 closed the week at 3,120.48, for a gain of 27.40, or 0.89 percent, and a YTD return of 24.50 percent. The Nasdaq closed the week at 8,540.83 for an increase of 65.52, or 0.77 percent, and a YTD return of 28.70 percent.

The Birling Capital PRSI closed the week at 1,699.23, a gain of 37.27, or 2.24 percent over the previous week, and a YTD return of 22.84 percent. Meanwhile, the U.S. Treasury's 10-year note lost during the week, closing at 1.83 percent, a decrease of 5.67 percent, with a YTD return of minus-0.90 percent. The U.S. Treasury's 2-year note lost during the week, falling to 1.64 percent, a reduction of 2.38 percent for the week, and a YTD return of minus-0.86 percent.

### What to expect at end of 2019, beginning of 2020

As December fast approaches, most investors have the 2018 December sell-off in mind, and investors have continued to advise since then that the bull market is not ready to die.

However, we also recognize that market volatility will continue to have an impact on most stocks, and this happens even under the best of circumstances.

### Understanding the DJIA

Like many of the most common indices that investors understand, most are "market capitalization-weighted," which signifies the companies with higher valuations have more influence on the index's movements. The DJIA is quite different. The DJIA is a "price-weighted" index; this means companies with higher stock prices have greater weight in the index's calculation. Another aspect that defines the DJIA is that it is a scaled average because the index's value is adjusted to reflect stock splits, dividends and other changes to the individual stocks.

### DJIA Stocks

- American Express
- Apple
- Boeing
- Caterpillar
- Chevron
- Cisco

- Coca-Cola
- DowDuPont
- ExxonMobil
- General Electric
- Goldman Sachs
- Home Depot, The
- IBM
- Intel
- Johnson & Johnson
- JPMorgan Chase
- McDonald's
- Merck
- Microsoft
- Nike
- Pfizer
- Procter & Gamble
- 3M
- Travelers Companies Inc.
- UnitedHealth
- United Technologies
- Verizon
- Visa
- Walmart
- Walt Disney Company, The

Are the DJIA stock companies a good investment?

That depends entirely up to your financial goals, risk tolerance, investor profile, liquidity needs and time horizon to determine if any of the stocks or the index are right for you.

### Final word: 'Birling Capital's U.S. Recession Probability'

Another new metric is the "Birling Capital U.S. Recession Probability." The proprietary model incorporates a range of data assessing economic conditions, financial markets' performance and gauges underlying stress. The reduction in the recession probability reflects an easing of financial-market conditions and a range of positive economic benchmarks. The Birling Capital U.S. Recession Probability stood at 15.77 percent in November. For the 2020 forecast, we see the recession probability increasing as follows:

- Q1 2020: 23.62 percent
- Q2 2020: 27.08 percent
- Q3 2020: 32.88 percent
- Q4 2020: 34.80 percent

It must be pointed out that with the Dow Jones Industrial Average, S&P 500, Nasdaq and Birling Capital PRSI closing at or near record levels reflect lower odds of a recession. Like all metrics, this will feel the impact from the underlying data in the economy.

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| Weekly Market Close Comparison  | 11/15/19  | 11/8/19   | Change | YTD     |
|---------------------------------|-----------|-----------|--------|---------|
| Dow Jones Industrial Average    | 28,004.89 | 27,681.24 | 1.17%  | 20.10%  |
| Standard & Poor's 500           | 3,120.48  | 3,093.08  | 0.89%  | 24.50%  |
| Nasdaq                          | 8,540.83  | 8,475.31  | 0.77%  | 28.70%  |
| Birling Puerto Rico Stock Index | 1,699.23  | 1,661.96  | 2.24%  | 22.84%  |
| U.S. Treasury 10-Year Note      | 1.83%     | 1.94%     | -5.67% | -0.900% |
| U.S. Treasury 2-Year Note       | 1.64%     | 1.68%     | -2.38% | -0.860% |