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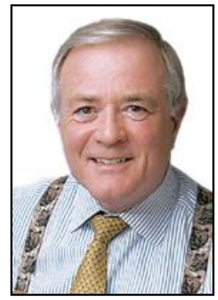
THE DAILY JOURNAL OF COMMERCE, PORTLAND, OREGON


William Rutherford

OP-ED: Continuing to climb a wall of worry

Published October 11, 2019

Longtime readers of this column may recall that I often write that the market climbs a wall of worry. This year has been no exception.

In spite of raucous headlines and recurring bad news, the U.S. equity market has increased 18.2 percent this year through September. European and Asian markets (the MSCI EAFE index) are up 13 percent. The U.S. real GDP annualized growth rate is at 2 percent. Consumer confidence has remained strong. Inflation is subdued.

But U.S. economic production is slowing, as is capital spending and investment. Indeed, on the first day of the new quarter, the U.S. manufacturing survey (the ISM index) came in at the lowest level since June 2009; it was the second consecutive month of contraction. While business leaders and economists blame tariff wars, President Trump took Federal Reserve Chairman Jerome Powell to the whipping post, calling the Federal Reserve Board – his appointees – "pathetic."

Consumer spending is about 70 percent of the U.S. economy, so when the consumer is happy, the economy is strong. The U.S. consumer is important to the world economy too. Right now the consumer confidence level is strong, although weakening with the slate of bad news.

The slowdown in capital spending is becoming more apparent. The International Monetary Fund has been warning about slowing for many months. We see it in Europe and Asia, and it is coming to the U.S. The long-term bull market has people thinking about a slowdown. When enough people think the economy is slowing, it becomes a self-fulfilling prophecy.

Adding to recession worries is the long-term trade conflict between the U.S. and China. The trade conflict has extended far beyond the president's early optimism; it is not clear when the conflict will be over, although the upcoming U.S. presidential election imposes somewhat of a limit.

The U.S. House of Representatives is now considering an impeachment resolution against President Trump, which he has vowed to ignore. This adds to the confusion in Washington and presents a new matter for the market to consider.

Other concerns for the market are the number of initial public offerings (IPOs) by companies that have no earnings. In one notable recent act of self-immolation, WeWork aborted its IPO and ousted its CEO on the eve of its offering. Without that influx of new capital, the company is racing to stem its cash outflow. Such actions do not build market confidence.

Boris Johnson, the British prime minister, has set Oct. 31 as the deadline for a decision on Britain's exit from the European Union. No one knows what "Brexit" will mean for the U.K., Europe or the global economy. It is possible that sanity will prevail, but hopes for sanity dim as the deadline approaches. At this writing, Johnson is hoping that his own government will fall, and a new vote on Brexit can be had.

What should be done in times like these? Be sure your asset allocation fits your investment objectives. Check with your financial advisor to confirm your allocation. Remain diversified, and do not try to trade short-term events.

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