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U.S. Stocks Pull Back Sharply As Economic Indicators Point to a Further Slowdown

U.S. stocks pulled back sharply on Friday, with the Dow Jones Industrial Average falling by 394 points (2.1%), both the S&P 500 Index and Nasdaq Composite Index falling by 2.5% and the small-cap Russell 2000 Index dropping by 3.1%, as compared to Thursday's close.

I wasn't the least bit surprised by Friday's stock market rout, as I told our clients and subscribers in our previous Weekly Commentary on August 27 that stocks were due for a substantial pullback.

With the readings on numerous economic indicators suggesting that the United States' pace of economic growth will continue to decline over the next few months after falling, on a year-over-year basis, during each of the past five quarters, there's a good chance that U.S. stocks will continue to pull back during the week ahead.

In regard to the latest readings on some key indicators, MNI Indicators, a wholly owned-subsidiary of Deutsche Börse AG, reported on August 31 that its Chicago Business Barometer™, which is designed to predict future changes in the United States' gross domestic product ("GDP"), declined substantially during August, as business activity in the Chicago area slowed considerably.

Specifically, MNI Indicators reported that its Chicago Business Barometer™ declined to 51.5 during August, from 55.8 during July, as new orders for manufactured goods slowed and backlogs of orders for manufactured goods fell sharply.

Separately, the Institute of Supply Management reported on September 1 that its latest survey of purchasing managers at U.S. manufacturing companies indicates that manufacturing activity in the United States declined during August. That's a very negative development considering the fact that the U.S. economy and U.S. stock prices tend to move in the same direction as the country's manufacturing activity.

Additionally, the U.S. Department of Commerce reported on September 1 that sales of automobiles in the United States declined, on a seasonally-adjusted basis, during three of the past four months and that construction spending in the U.S. slowed for the fourth consecutive month during July, the latest month for which data are available. Specifically, auto sales declined by 5% during August, as compared to the prior month, and by 3.8% compared to the same month a year ago. Meanwhile, construction spending rose during July at the slowest year-over-year rate since November 2011.

Of utmost concern, the U.S. Department of Labor reported on September 2 that only 151,000 new jobs were created in the United States, on a seasonally-adjusted basis, during August. That's far less than most economists estimate that need to be created every month just to keep pace with growth in the country's population.

On a positive note, the National Association of Realtors reported on August 29 that contracts signed by prospective homebuyers to purchase a previously-owned homes within the next two months – pending home sales – rose during July, the latest month for which data are available, after declining during each of the two prior months. And, the U.S. Department of Commerce reported on August 31 that Americans increased their spending considerably over the two months ended July 31, the latest date for which data are available, as their after-tax incomes rose at a faster pace.

Meanwhile, the performance of stocks in other major regions of the world were mixed today, with the European Economic and Monetary Union Index ("EMU") declining by 2.2% and Brazil's Bovespa Index falling by 3.7%, while India's Bombay Sensex Index, Japan's NIKKEI 225 and China's Shanghai Composite Index were essentially unchanged, as compared to Thursday's closes.

In regard to economic developments in the regions mentioned above, sales at Eurozone retail stores rose during July, the latest month for which data are available, at the fastest year-over-year pace since September 2015, and manufacturing activity in the Eurozone rose for the 38th consecutive month during August.

Separately, Japan's Cabinet Office reported on September 7 that its index of leading economic indicators for Japan rose during July, the latest month for which data are available. And, the Cabinet Office reported on September 8 that its EcoWatchers Survey, which is based on responses from approximately 2,000 individuals engaged in jobs in cyclical industries throughout Japan, rose for the second consecutive month during August. The readings on those leading economic indicators suggest that Japan's pace of economic growth will rise over the next few months.

Although China's economy expanded at a slower pace during the first half of this year than during the prior year, manufacturing activity there rose during each of the past two months, indicating that the country's pace of economic growth will increase over the next couple of months.

In regard to economic developments in India, proposals made by the country's Prime Minister, Narendra Modi, that have been implemented since the day he was appointed to that position on May 24, 2014 enabled India's economy to expand at a year-over-year rate exceeding 7% during every quarter from September 30, 2014 to March 31 of this year, the latest quarter for which data are available, after growing at an average annual rate of only 4.9%, and a maximum rate of only 5.7%, during the two years preceding Modi's appointment as the country's Prime Minister.

With Modi continuing to push for increasing India's investments in infrastructure projects, extending the country's high-speed rail network across the subcontinent, and increasing foreign direct investments ("FDI") in India, I expect the India's economy to continue to expand at a fast pace, and for Indian stocks to continue to trend higher, over the next couple of years.

In contrast, the most-recent economic statistics for Brazil indicate that South America's largest economy will remain in a recession through the end of this year. However, the worst appears to be over for Brazil, with the country's economy contracting at a slower pace during each of the past two quarters, the worldwide demand for oil and other commodities increasing substantially over the past eight months, and Brazil's inflation rate falling considerably over the past seven months.

Investment Recommendations

As a result of the economic developments mentioned in the sections above, I'm continuing to advise my firm's clients and persons who subscribe to our ***Free Weekly Investment Commentary*** to allocate the majority of their financial market assets to cash-like investments (i.e. money-market securities) and to a few relatively-safe, yet high-paying dividend securities, including **Gabelli Equity Trust Inc. Series H Cumulative Preferred Stock (GAB-PH)**, **Welltower Inc. (HCN)**, and **Nuveen S&P 500 Buy-Write Income Fund (BXMX)**.

In addition, on September 8 I advised our clients and persons who've signed up for a **Free Trial** to our monthly investment journal, ***Frazier's Strategic Allocator***, to add to their positions in the following securities, or to initiate positions in the those securities if they don't already own them: **JPMorgan Alerian MLP Index ETN (AMJ)** and **E-TRACS Alerian MLP Infrastructure ETN (MLPI)**.

In the event that stock prices, in general, were to continue to pull back during the weeks ahead, but to hold above some key price-support levels, I would likely advise our clients and subscribers to invest in several infrastructure, cyclical, and small-cap growth stocks that I've been monitoring.

Click here and complete the form that loads on our Internet Web site if you would like for us to tell you when our research indicates are opportune times to invest in those stocks.

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