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**Monthly Market Insights**
September 1, 2019

The summary below is provided for educational purposes only. If you have any thoughts or would like to discuss any other matters, please feel free to contact me.

## Cross-Currents in August

August can be hot and muggy. It leaves one pining for a fresh autumn breeze. Since 1970, August has, on average, been a lackluster performer for stocks (St. Louis Federal Reserve S&P 500 data). Last month was no exception – hot and muggy.

| Index | Aug Return* | | YTD Return % |
|---|---|---|---|
| DJIA[1] | -1.72 | | +13.19 |
| NASDAQ Composite[2] | -2.60 | | +20.01 |
| S&P 500 Index[3] | -1.81 | | +16.74 |
| The Global Dow[4] | -3.47 | | +8.00 |
| **Bond Yields** | **Yield - % a/o Aug 30 & Change*** | | **Yield - % a/o Dec 31, 2018** |
| 3-month T-bill | 1.99 | -0.09 | 2.45 |
| 2-year Treasury | 1.50 | -0.39 | 2.48 |
| 10-year Treasury | 1.50 | -0.52 | 2.69 |
| 30-year Treasury | 1.96 | -0.57 | 3.02 |
| **Commodities** | **Aug 30 Price & Change*** | | **Year end 2018** |
| Oil per barrel[5] | $55.16 | -3.52 | $45.41 |
| Gold per ounce[6] | $1,529.20 | +91.40 | $1,279.00 |

*Sources: U.S. Treasury Dept., MarketWatch *Monthly: July 31, 2019 – August 30, 2019*

While August's historically weak numbers are difficult to explain (September is the weakest), last month's volatility and modest selloff can be traced to a couple of factors: escalating trade tensions with China and rising concerns about the global economy.

Last month, President Trump upped the ante in the trade war with China. Not surprisingly, China retaliated, and the U.S. responded in kind.

But what might be the president's strategy?

China has benefitted from the status quo for over 20 years. China has had no incentive to change its behavior.

Its economy has grown rapidly, in part, due to its ability to sell cheap goods to U.S. consumers. It has also obtained technology via theft and forced technology transfers from its U.S. partners doing business in China.

Up until now, China has had no incentive to play by the rules. Why should it? Crime pays.

### There's a new sheriff in town

Agree with his methods or not, Trump's goal has been to change the calculus by ratcheting up pressure on China so that the status quo becomes increasingly painful. It's a high risk/high reward strategy designed to level the playing field.

While China can ill-afford slower growth, Chinese retaliation comes at a price – volatility in financial markets and higher costs for U.S. businesses and consumers.

How long volatility may last is anyone's guess. Sometimes, a well-timed conciliatory statement or tweet from the president sends stocks higher.

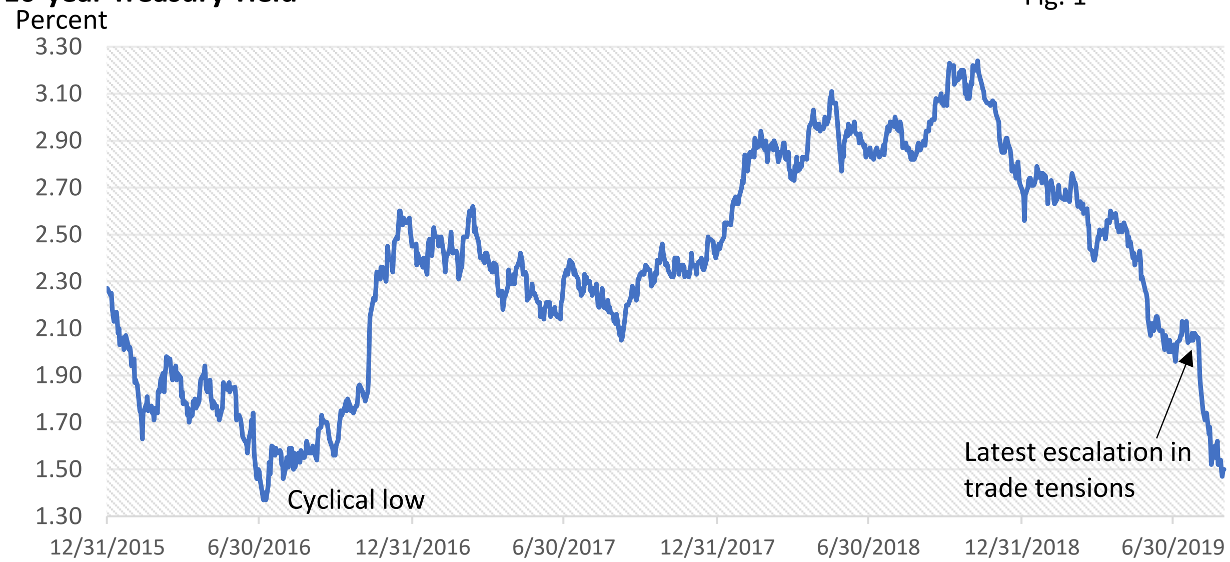
Will economic pain force China to negotiate in good faith? Or, will China wait out the 2020 election? Both sides are feeling the heat, and China is being incented to deal.

### Plunging bond yields

Several variables affect bond yields. Expected inflation, expected economic growth, the Fed's posture, and what is happening to the global economy and global bond yields.

**10-year Treasury Yield**

Fig. 1




Data Source: St. Louis Federal Reserve Last Date: 8/30/19

Today, inflation is low, the global economy has slowed, the Fed is cutting interest rates and global bond yields have tanked. All of these factors have attracted cash into longer-term U.S. Treasuries (bond prices and yields move in the opposite direction).

Heightened uncertainty can also encourage investors to sell stocks and place the proceeds into Treasury bonds. The latest decline in yields began when President Trump announced new tariffs on Chinese goods at beginning of August – see Figure 1.

Further, rock bottom yields are creating anxieties that the Treasury bond market is telegraphing a recession.

Yet, there may be exogenous factors that are pressuring yields at home.

There is over $15 trillion (yes, trillion – that's not a typo) in government debt around the world that yields less than zero (Bloomberg). That's right, you'll receive less than your investment if held until maturity.

A 10-year bond government bond in Switzerland sports a yield of -1.02%. Germany's 10-year government bond yields -0.70% (Bloomberg as of Aug 30).

In comparison, U.S. Treasuries are attractive and may be drawing overseas cash, which artificially depresses yields at home.

**Final thoughts**

By itself, shorter-term volatility isn't unusual. We see it from time to time when heightened uncertainty creeps into sentiment.

Still, peak to trough, the S&P 500 Index was down 6.1% between July 26 – August 14. By August's close, the S&P 500 Index was off just 3.3% from its peak (St. Louis Fed/Yahoo Finance).

As I've said before, control what you can control – the financial plan. Much goes into crafting your plan. While it can be tweaked and it doesn't eliminate risk, it helps manage risk, and it is designed with both up and down economic cycles in mind.

Ultimately, it is also designed with your financial goals in mind.

Warmest Regards,

***Jeremy R. Hofer***

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[1] The Dow Jones Industrials Average is an unmanaged index of 30 major companies which cannot be invested into directly. Past performance does not guarantee future results.
[2] The NASDAQ Composite is an unmanaged index of companies which cannot be invested into directly. Past performance does not guarantee future results.
[3] The S&P 500 Index is an unmanaged index of 500 larger companies which cannot be invested into directly. Past performance does not guarantee future results.
[4] The Global Dow is an unmanaged index composed of stocks of 150 top companies. It cannot be invested into directly. Past performance does not guarantee future results.
[5] CME Group front-month contract; Prices can and do vary; past performance does not guarantee future results.
[6] CME Group front-month contract; Prices can and do vary; past performance does not guarantee future results.



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