
Tackling Trade & Treasuries

Weekly Update – May 21, 2018

Major domestic indexes went down last week after all three gained more than 2% the previous week.¹ The S&P 500 dropped 0.54%, the Dow gave back 0.47%, and the NASDAQ lost 0.66%.² International stocks also stumbled; the MSCI EAFE decreased by 0.61%.³

Two familiar topics were on many investors' minds last week: trade and treasuries. Here is a recap of the key details and their market impacts.

1. U.S. and China Resumed Trade Talks

Background:

Tension between the world's 2 largest economies continued last week as the U.S. and China launched another round of trade discussions. Both countries have threatened billions of dollars of tariffs on the other's products, but so far, neither has acted.⁴

On Saturday, May 19, the countries released a joint statement saying they would take measures to "substantially reduce the United States' trade deficit in goods with China." The Chinese state media called the agreement a "win-win."⁵ Then on Sunday, May 20, U.S. Treasury Secretary Steven Mnuchin announced that they had "put the tariffs on hold."⁶ The weekend's developments imply both countries will continue working to close the trade deficit by increasing China's imports of U.S. agricultural commodities and energy.⁷

Market Impact:

As the trade talks unfolded on Thursday and Friday, investors received very little information. This uncertainty affected investor sentiment and contributed to stocks ending lower on Friday.⁸ Now that the countries have shared some details about the negotiations, we will focus on how investors digest the news in next week's trading. Mnuchin's assertion that the trade war is on hold for now should be welcome news for investors.⁹

2. U.S. Treasury Yields Spiked

Background:

The 10-year Treasury yield closed at 3% or higher every day last week.¹⁰ Early Friday, it reached its highest point in almost 7 years as data continued to demonstrate the labor market's strength. We learned last week that the number of people receiving jobless benefits is at its lowest since 1973. Unemployment is also currently at an almost 17-year low. The numbers suggest the economy is likely reaching full employment.

So, how does labor data affect Treasuries? Typically, employers have to pay higher wages when unemployment is low. As wages increase, other prices in the economy often rise, which can trigger inflation. This can cause Treasury prices to suffer as their fixed payments become less valuable, causing yields to rise.¹¹

Market Impact:

Treasury yields affect markets in a variety of ways. When they increase quickly, concerns can arise that the economy is accelerating too fast, which can cause the Federal Reserve to raise interest rates. In addition, for 10-year Treasuries, yields above 3% are a psychological benchmark. Some people believe stocks become less appealing when Treasuries can provide this level of income.¹²

What's Ahead

For now, we will continue to analyze whether yield increases are a sign of a strengthening economy or rising inflation rates.

We know that trade disputes and Treasury yields are complex, constantly changing topics. So, if you have questions about how these details affect your financial life, we are here to talk.

ECONOMIC CALENDAR

Wednesday: New Home Sales, FOMC Minutes

Thursday: Existing Home Sales, Jobless Claims

Friday: Durable Goods Orders, Consumer Sentiment

PERFORMANCE

DATA AS OF 5/18/2018	1 WEEK	SINCE 1/1/18	1 YEAR	5 YEAR	10 YEAR
STANDARD & POOR'S 500	-0.54%	1.47%	14.68%	10.22%	6.65%
DOW	-0.47%	-0.02%	19.61%	9.99%	6.65%
NASDAQ	-0.66%	6.53%	21.46%	16.02%	11.27%
INTERNATIONAL	-0.61%	-0.17%	9.56%	3.02%	-0.69%
DATA AS OF 5/18/2018	1 MONTH	6 MONTHS	1 YEAR	5 YEAR	10 YEAR
TREASURY YIELDS (CMT)	1.68%	2.09%	2.32%	2.90%	3.06%

Notes: All index returns (except S&P 500) exclude reinvested dividends, and the 5-year and 10-year returns are annualized. The total returns for the S&P 500 assume reinvestment of dividends on the last day of the month. This may account for differences between the index returns published on Morningstar.com and the index returns published elsewhere. International performance is represented by the MSCI EAFE Index. Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly.

QUOTE OF THE WEEK



*“Empty pockets never held anyone back.
Only empty heads and empty hearts can do that.”*

— Norman Vincent Peale

RECIPE OF THE WEEK



Classic Jelly Donuts



Yields 15

Ingredients:

$\frac{3}{4}$ cup whole milk
1¼-ounce package of active dry yeast (2¼ teaspoons)
 $\frac{1}{4}$ cup granulated sugar
2 large eggs
2 tablespoons unsalted butter, at room temperature, cut into small pieces
1 teaspoon kosher salt
1 teaspoon lemon zest
3 cups all-purpose flour, plus more for work surface
2 quarts (64 ounces) canola oil, plus more for greasing
1 cup confectioners' sugar
2 cups raspberry or strawberry jam

Directions:

1. Microwave the milk in a small bowl until it is 100°-110°F (warm to the touch). Stir yeast and sugar into the bowl. Set it aside for about 5 minutes until it is frothy.

2. Pour the mixture into a large bowl with an electric stand mixer. Mix eggs and beat gently by hand. Mix in butter and salt. It's OK for lumps of butter to remain in the mix.
3. Stir in lemon zest and half of the flour to form dough. Slowly pour in the rest of the flour. Use an electric mixer with a dough hook. Knead the mix on the lowest speed for 5 minutes. Dough will remain sticky.
4. Put the mix in a lightly oiled large bowl. Cover the bowl with a damp towel. Set the mix aside at room temperature to allow it to double in size, 1-1½ hours, or overnight in the refrigerator.
5. Turn dough on lightly floured work surface. Sprinkle flour on top. Roll and press until mix is ½-inch thick. Use floured 2½-inch round cutter to cut out dough and place on lightly oiled large baking sheet.
6. Collect scraps and form a ball. Repeat the process of rolling and cutting. Cover with a damp towel and let rise until it is puffed, 30 minutes.
7. At the same time, put a cooling rack over another baking sheet. Heat the oil in a large, deep saucepan to 350°F with deep-fry thermometer.
8. Carefully place 3-4 donuts at a time in hot oil, cooking until the donuts are golden brown, about 1 minute per side.
9. Using a large, slotted spoon, move donuts to cooking rack to cool. Put donuts in a bowl with confectioners' sugar to coat.
10. Fill piping bag with jam. The bag should be fitted with ½-inch round tip. Cut a narrow slit in the donuts for filling with jelly. Fill donuts.

Recipe adapted from Good Housekeeping¹³



How to Get Prior-Year Tax Information

Tax day 2018 has passed—and for American taxpayers, it was one of the last reminders of 2017. The IRS instructs filers to retain tax records and supporting documents for at least the 3 previous years.

Taxpayers who used tax-filing software for the first time and who don't have copies of their returns may order tax transcripts of previous-year returns from the IRS. The transcripts provide a summary of a tax return.

Taxpayers seeking to obtain transcripts need to have the amount of their adjusted gross income to validate their identities. For more information, go to [Validating Your Electronically Filed Tax Return](#).

The IRS advises taxpayers to first check with the provider of the tax software they used or their tax preparer before contacting the agency for the information. The IRS charges a fee for providing prior-year returns. The transcripts, however, are free.

It takes 5-10 days to get tax transcripts ordered online or by phone after the IRS receives the request. It takes about 30 days to get tax transcripts ordered by mail and about 75 days for tax returns.

Here are 3 ways to order transcripts:

1. Go to [Get Transcript](#) on the agency's website.
2. Taxpayers may call 800-908-9946.
3. Taxpayers may use [Form 4506-T](#) or [Form 4506T-EZ](#) to order by mail.

* This information is not intended to be a substitute for specific individualized tax advice. We suggest that you discuss your specific tax issues with a qualified tax advisor.

Tip adapted from IRS.gov¹⁴



Should I Slow Down My Swing Speed?

It's the beginner's quandary: a powerful, lightning-fast swing will send the ball farther down the fairway and closer to the green, right? Probably not. While there are exceptions to the rule, those 100 mph swings usually send the ball to another fairway, to the rough, or dribbling 10 feet in front of the tee. Except maybe on a PGA Tour.

While the notion is counterintuitive, those slow, focused swings generally produce the best results.

Here is what the top golfers and coaches think about golf swing speeds:

- Golf legend Jack Nicklaus creates a mental image of his hands and arms moving in slow motion during his swing.
- Instructor Butch Harmon says golfers will make better ball contact with controlled swings and a full shoulder turn. He adds that players should concentrate on restricting their speed to 75% of their capability.
- PGA winner Nick Price says golfers should focus on developing a fluid swing and completing their backswings.
- On the other side of the slow-swing school, golf legend Arnold Palmer said players shouldn't apply the swing brakes too hard.

Tip adapted from Golfweek¹⁵



How Can You Lower Your Risk of Falling?

About a quarter of older adults fall every year, according to the U.S. Department of Health and Human Services.

Falling sometimes leads to broken bones, limited mobility, and other health problems, especially for people 65 and older.

Here are 5 tips to help prevent falling:

1. Discuss with your doctor ways to prevent falling.
2. Perform exercises that improve your balance and strengthen your legs.
3. Review your medications with your doctor or pharmacist. (Some drugs can cause dizziness or sleepiness.)
4. Get an eye exam every 1-2 years.
5. Install safety features in your home, such as bathroom grab bars and stair railings.

Material adapted from Office of Disease Prevention and Health Promotion¹⁶



How to Make Your Indoor Air Fresh

You think you're safe from outdoor pollutants and toxins? Think again. In fact, according to the U.S. Environmental Protection Agency, indoors at your home is 2-5 times more polluted than outdoors.

Taking a deep breath of fresh air outdoors just might make good health sense. But considering the fact that we spend on average 90% of our time indoors, it might be a good idea to find out what's going on.

Why is the air inside so much more polluted? Experts point to toxic household cleaners as one of the biggest culprits.

Other household villains include new carpet, paint, mold, mildew, tobacco smoke, air freshener fragrances, personal care products, asbestos, pesticides, and certain pressed woods.

What can you do to keep the air inside clean and healthy?

Here are 5 suggestions:

1. **Circulate:** When possible, open your windows.
2. **Go natural:** Try carpet made from wool or cotton rather than synthetic fibers. Buy cabinets made from solid wood with water-based varnishes.
3. **Don't use air freshener:** Spraying masks odors. Find and eliminate the source of bad smells.
4. **No smoking inside:** Tell smokers to take their habits outside. It's not impolite or unreasonable.
5. **Get plants:** One good houseplant can clean 100 square feet of space. Pothos and spider plants are excellent at keeping your air fresh and oxygen heavy.

Tip adapted from EarthShare¹⁷

Share the Wealth of Knowledge!

Please share this market update with family, friends, or colleagues. If you would like us to add them to our list, you can have them check out our Web-site (www.thebacagroup.com) or let me know and I will add them to our list. We love being introduced!

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Investing involves risk including the potential loss of principal. No investment strategy can guarantee a profit or protect against loss in periods of declining values.

Diversification does not guarantee profit nor is it guaranteed to protect assets.

International investing involves special risks such as currency fluctuation and political instability and may not be suitable for all investors.

The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general.

The Dow Jones Industrial Average is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the NASDAQ. The DJIA was invented by Charles Dow back in 1896.

The Nasdaq Composite is an index of the common stocks and similar securities listed on the NASDAQ stock market and is considered a broad indicator of the performance of stocks of technology companies and growth companies.

The MSCI EAFE Index was created by Morgan Stanley Capital International (MSCI) that serves as a benchmark of the performance in major international equity markets as represented by 21 major MSCI indices from Europe, Australia, and Southeast Asia.

The 10-year Treasury Note represents debt owed by the United States Treasury to the public. Since the U.S. Government is seen as a risk-free borrower, investors use the 10-year Treasury Note as a benchmark for the long-term bond market.

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Past performance does not guarantee future results.

You cannot invest directly in an index.

Consult your financial professional before making any investment decision.

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¹ <https://www.cnbc.com/2018/05/18/futures-point-to-higher-open-amid-us-china-trade-talks.html>

² <http://performance.morningstar.com/Performance/index-c/performance-return.action?t=SPX®ion=usa&culture=en-US>

<http://performance.morningstar.com/Performance/index-c/performance-return.action?t=%21DJI®ion=usa&culture=en-US>

<http://performance.morningstar.com/Performance/index-c/performance-return.action?t=@CCO>

³ <https://www.msci.com/end-of-day-data-search>

⁴ <https://www.nytimes.com/aponline/2018/05/18/world/asia/ap-financial-markets-.html>

⁵ <https://www.reuters.com/article/us-usa-trade-china/china-agrees-to-import-more-from-u-s-no-sign-of-200-billion-figure-idUSKCN11K0PM>

⁶ <http://www.latimes.com/business/la-fi-china-us-trade-war-on-hold-20180520-story.html>

⁷ <https://www.reuters.com/article/us-usa-trade-china/china-agrees-to-import-more-from-u-s-no-sign-of-200-billion-figure-idUSKCN11K0PM>

⁸ <https://www.cnbc.com/2018/05/18/futures-point-to-higher-open-amid-us-china-trade-talks.html>

⁹ <http://www.latimes.com/business/la-fi-china-us-trade-war-on-hold-20180520-story.html>

¹⁰ <https://www.treasury.gov/resource-center/data-chart-center/interest-rates/Pages/TextView.aspx?data=yieldYear&year=2018>

¹¹ <https://www.cnbc.com/2018/05/18/us-yields-fall-back-after-climbing-to-fresh-seven-year-peak.html>

¹² <https://www.marketwatch.com/story/us-stocks-set-to-end-the-week-on-a-higher-note-with-trade-talks-yields-in-the-spotlight-2018-05-18>

¹³ <https://www.goodhousekeeping.com/food-recipes/a48180/classic-jelly-donuts-recipe/>

¹⁴ <https://www.irs.gov/newsroom/heres-how-to-get-prior-year-tax-information>

¹⁵ <http://golftips.golfweek.com/better-slow-down-swing-speed-golf-20010.html>

¹⁶ <https://healthfinder.gov/HealthTopics/Category/everyday-healthy-living/safety/lower-your-risk-of-falling>

¹⁷ <http://www.earthshare.org/2008/09/fresh-air.html>