

Weekly Market Commentary

August 12, 2019

The Markets

Global selloff. Quick comeback.

Investors boomeranged from stocks to safe havens and back as trade tensions between the United States and China intensified last week. *The Economist* reported:

“On August 1st President Donald Trump warned that he would soon impose a 10 percent levy on roughly \$300bn-worth of Chinese goods that have not already been hit by the trade war. Four days later China responded by giving its exchange rate unaccustomed freedom to fall. The yuan weakened past seven to the dollar, an important psychological threshold, for the first time in over a decade. And stock prices in America duly fell...”

Asia Times explained, “Beijing has signaled that it is prepared to endure a long and debilitating trade war with the United States...A reported directive to Chinese companies to refrain from buying U.S. farm products seems an in-your-face challenge to the U.S. president.”

The possibility of a prolonged trade war triggered worries about global recession and set off a selloff. Global stock markets experienced the biggest one-day decline since February 2018, according to *Bloomberg*, and U.S. stocks delivered the worst one-day performance of 2019, reported *MarketWatch*.

Stocks staged an impressive recovery on Tuesday. Then, central banks in India, Thailand, and New Zealand announced unexpected rate cuts. The moves incited concern about the health of the global economy and stocks dropped again – and recovered again. By the end of the week, nearly all losses in U.S. stock markets had been erased.

If recent volatility has triggered a desire to change your investments, please get in touch with us before you do.

Data as of 8/9/19	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	-0.5%	16.4%	2.3%	10.2%	8.6%	11.2%
Dow Jones Global ex-U.S.	-1.3	6.3	-7.7	2.9	-0.5	2.7
10-year Treasury Note (Yield Only)	1.7	NA	2.9	1.6	2.4	3.8
Gold (per ounce)	3.9	16.9	23.3	3.8	2.8	4.7
Bloomberg Commodity Index	0.3	0.9	-8.8	-2.6	-9.5	-5.0

S&P 500, Dow Jones Global ex-US, Gold, Bloomberg Commodity Index returns exclude reinvested dividends (gold does not pay a dividend) and the three-, five-, and 10-year returns are annualized; and the 10-year Treasury Note is simply the yield at the close of the day on each of the historical time periods.

Sources: Yahoo! Finance, MarketWatch, djindexes.com, London Bullion Market Association.

Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly. N/A means not applicable.

CAN YOU BELIEVE IT? The global bond market deserves a spot in a believe-it-or-not museum, right next to the bathythermograph, radioactive vodka (brewed with Chernobyl grain), and 526 extra teeth recently removed from a youngster’s jaw.

Here's why: Approximately one-fourth of all bonds issued by governments and companies around the globe are trading at negative yields, according to an index cited by *The Economist*.

Just imagine. You want to borrow money. An acquaintance agrees to lend you the money and then offers to pay you for borrowing it.

It sounds like a Monty Python skit, right?

It's not. All over the world, bonds issued by governments and companies are offering negative interest rates. Investors who purchase the bonds are paying governments and companies to borrow their money. For instance, in Germany, investors are paying one-half of a percentage point annually for the assurance their money will be returned when the bond matures.

Why are so many bond yields in negative territory?

Strangely enough, retirement and longevity may play a role. Joachim Fels of *PIMCO* theorized a 'savings glut' could be the reason for low and negative yields. He explained:

“...it can be argued that in affluent societies where people can expect to live ever longer and thus spend a significant amount of their lifetimes in retirement, more and more people demonstrate negative time preference, meaning they value future consumption during their retirement more than today's consumption...they are thus willing to accept a negative interest rate and bring it about through their saving behavior.”

We live in interesting times.

Weekly Focus – Think About It

“Why do you go away? So that you can come back. So that you can see the place you came from with new eyes and extra colors. And the people there see you differently, too. Coming back to where you started is not the same as never leaving.”

--Sir Terence David John Pratchett, *English author*

Best regards,

“Your Beacon Wealth Management Team”

P.S. Please feel free to forward this commentary to family, friends, or colleagues. If you would like us to add them to the list, please reply to this email with their email address and we will ask for their permission to be added.

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- * Government bonds and Treasury Bills are guaranteed by the U.S. government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value. However, the value of fund shares is not guaranteed and will fluctuate.
- * Corporate bonds are considered higher risk than government bonds but normally offer a higher yield and are subject to market, interest rate and credit risk as well as additional risks based on the quality of issuer coupon rate, price, yield, maturity, and redemption features.
- * The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general. You cannot invest directly in this index.
- * All indexes referenced are unmanaged. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment.
- * The Dow Jones Global ex-U.S. Index covers approximately 95% of the market capitalization of the 45 developed and emerging countries included in the Index.
- * 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.
- * Gold represents the afternoon gold price as reported by the London Bullion Market Association. The gold price is set twice daily by the London Gold Fixing Company at 10:30 and 15:00 and is expressed in U.S. dollars per fine troy ounce.
- * The Bloomberg Commodity Index is designed to be a highly liquid and diversified benchmark for the commodity futures market. The Index is composed of futures contracts on 19 physical commodities and was launched on July 14, 1998.
- * The Dow Jones Industrial Average (DJIA), commonly known as "The Dow," is an index representing 30 stock of companies maintained and reviewed by the editors of The Wall Street Journal.
- * The NASDAQ Composite is an unmanaged index of securities traded on the NASDAQ system.
- * International investing involves special risks such as currency fluctuation and political instability and may not be suitable for all investors. These risks are often heightened for investments in emerging markets.
- * Yahoo! Finance is the source for any reference to the performance of an index between two specific periods.
- * Opinions expressed are subject to change without notice and are not intended as investment advice or to predict future performance.
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- * You cannot invest directly in an index.
- * Stock investing involves risk including loss of principal.
- * The foregoing information has been obtained from sources considered to be reliable, but we do not guarantee it is accurate or complete.
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- * Asset allocation does not ensure a profit or protect against a loss.
- * Consult your financial professional before making any investment decision.
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