

Weekly Market Commentary June 25, 2018

The Markets

What time is it?

The yield curve may be the pocket watch of economic indicators. It has been around for a long time and it is often right, but not always.

The yield curve is the difference between the interest paid on two-year government bonds and 10-year government bonds. In normal circumstances, an investor would expect to earn a higher rate of interest when lending money to a government for 10 years than when lending money for two years because there is more risk associated with lending for a longer period of time.

When the yield curve flattens or inverts, it suggests a shift in investors' expectations. *Financial Times* explained:

“The slope made up of bond yields of various maturities has a record of predicting recessions that would make even the savviest econometrician turn pea-green with envy. It is not perfect, but the curve has become flat and inverted – when short-term bond yields are actually higher than long-term ones – ahead of most economic downturns in most major countries since the second world war.”

In the United States last week, the difference between yields on 2-year Treasuries (2.56) and 10-year Treasuries (2.90) flattened. The gap narrowed to 34 basis points (a basis point is one-hundredth of one percent). The change reflects higher short-term rates, courtesy of the Federal Reserve. It also suggests tariffs and trade issues have made bond investors more pessimistic about prospects for U.S. growth, reported *The Wall Street Journal*.

Globally, the yield curve is inverted. “The average yield of bonds in JPMorgan’s broadest Government Bond Index that mature in seven to 10 years last week slipped below the average yields of bonds maturing in one to three years for the first time since 2007...that indicates that investors have a pretty grim view of where the world economy and equity markets are heading,” reported *Financial Times*.

We are keeping an eye on developments in the financial markets and will keep you informed.

Data as of 6/22/18	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	-0.9%	3.0%	13.2%	9.1%	11.9%	7.7%
Dow Jones Global ex-U.S.	-1.2	-3.8	6.5	2.2	4.9	0.5
10-year Treasury Note (Yield Only)	2.9	NA	2.1	2.4	2.6	4.2
Gold (per ounce)	-1.3	-2.1	1.5	2.3	-0.3	3.7
Bloomberg Commodity Index	-0.4	-1.0	10.0	-4.4	-7.1	-9.2
DJ Equity All REIT Total Return Index	2.4	0.3	3.4	7.8	9.7	7.9

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; the DJ Equity All REIT Total Return Index does include reinvested dividends 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, Barron's, 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.

YOU KNEW CARROTS WERE GOOD FOR YOUR EYES, and a newly discovered use for the orange veggie may help farmers and/or food processing companies find a new source of revenue. That is because carrots can make concrete stronger – and so do sugar beets.

Engineers at Lancaster University in the United Kingdom are infusing nano platelets from discarded carrots and root vegetable peels into concrete. This strengthens the material in an environmentally friendly way. *Durability + Design* reported:

“These vegetable-composite concretes were also found to out-perform all commercially available cement additives, such as graphene and carbon nanotubes and at a much lower cost...The root vegetable nano platelets work both to increase the amount of calcium silicate hydrate – the main substance that controls the performance of concrete – and stop any cracks that appear in the concrete.”

The Economist reported adding 500 grams of platelets reduced the amount of cement required to make a cubic foot of concrete by 10 percent. In addition to reducing the amount of building material needed for a project, carrot concrete also reduces CO2 emissions.

Another natural material is getting a makeover, too. Researchers at the University of Maryland are refining processes that make wood stronger than steel, reported *Scientific American*. It may compete with titanium alloys and have applications beyond building:

“A five-layer, plywood-like sandwich of densified wood stopped simulated bullets fired into the material – a result Hu and his colleagues suggest could lead to low-cost armor. The material does not protect quite as well as a Kevlar sheet of the same thickness, but it only costs about 5 percent as much, he notes.”

If demand for carrots (and sugar beets and wood) increases and supply remains constant, then we may see prices for those goods increase.

Weekly Focus – Think About It

“A person with a new idea is a crank until the idea succeeds.”

--Mark Twain, American author and humorist

Best regards,

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Certified Financial Planner® Financial Advisor Financial Advisor Certified Financial Planner®

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- * This newsletter was prepared by PEAK.
 - * 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 DJ Global ex US is an unmanaged group of non-U.S. securities designed to reflect the performance of the global equity securities that have readily available prices.
 - * 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 London afternoon gold price fix as reported by the London Bullion Market Association.
 - * The DJ 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 DJ Equity All REIT TR Index measures the total return performance of the equity subcategory of the Real Estate Investment Trust (REIT) industry as calculated by Dow Jones.
 - * 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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