

## Commentary

July 11, 2016

### The Markets

When the yield on 10-year Treasuries finished last week at 1.37 percent, a record closing low, *Barron's* called it a Kübler-Ross rally.

Elizabeth Kübler-Ross was a Swiss psychiatrist whose research identified the five stages of grief: denial, anger, bargaining, depression, and acceptance. According to *Barron's*, institutional money managers have reached the final stage of grief and accepted that bond yields may remain low for some time:

“Far from irrational exuberance, many institutional investors voice resignation (or worse) to the fact that they are forced to put money to work at record low yields – 1.366 percent for the benchmark 10-year Treasury note – since that’s better than nothing, which literally is what they earn on the estimated \$11.7 trillion of global debt securities with negative yields.”

*The Wall Street Journal* attributed record low 10-year Treasury rates to investors’ concerns about the health of the global economy, as well as “expectations that central banks in Japan and Europe will take further steps to bolster their economies, doubling down on ultra-loose monetary policies that have already helped create a record amount of negative-yielding government bonds.”

U.S. stock markets closed near record highs last week after the June employment report showed far more jobs had been created than expected. Once again, this raised questions about whether stocks are pricey in the current environment.

*Barron's* explained the equity risk premium, which is the potential return investing in the stock market provides over investing in a low risk option such as a Treasury bond, is 4.6 percentage points. That’s almost the highest it has been in the past 15 years (excluding the financial crisis and the European debt crisis). However, if earnings don’t meet expectations, stocks may prove to be more expensive than they appear.

Data as of 7/8/16	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	1.3%	4.2%	4.1%	9.1%	9.7%	5.3%
Dow Jones Global ex-U.S.	-1.5	-3.2	-8.4	-0.9	-2.2	-0.5
10-year Treasury Note (Yield Only)	1.4	NA	2.2	2.7	3.0	5.1
Gold (per ounce)	1.1	27.5	16.9	3.1	-2.6	8.0
Bloomberg Commodity Index	-3.7	10.0	-11.7	-12.0	-11.7	-6.8
DJ Equity All REIT Total Return Index	1.1	15.4	22.0	13.8	11.9	7.4

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](http://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.

**CANADA, EH?** If there were a beauty contest among nations, Canada would probably be crowned Miss Congeniality. The second largest country in the world – known for breathtaking temperatures (-40 degrees Fahrenheit), magnificent scenery, open spaces, and friendly natives – has captured the interest of both Brits and Americans during 2016.

Canada was the top theoretical relocation choice among Brits following the Brexit vote. According to *Citylab.com*, ‘move to Canada’ was one of the two most popular ‘move to...’ searches in British cities. The second was Scotland, which took first among folks living in Manchester, Birmingham, Leeds, Liverpool, and Bristol.

It’s interesting to note the top search among residents of Edinburgh and Glasgow in Scotland was ‘move to Gibraltar.’ *CityLab.com* opined:

“It seems unlikely that these major cities are genuinely thinking about squeezing onto a tiny rock, but Gibraltar has been on people’s minds, I suspect, because it was first to declare a referendum result (for Remain) early this morning and is now finding itself under high-profile pressure for power-sharing from Spain.”

U.S. Internet searches for the phrase ‘how to move to Canada’ were quite popular this year, too, according to *The Economist*. The search reached its 2016 crescendo to-date after the Super Tuesday primaries in March. Donald Trump won seven states and Hillary Clinton won seven states and American Samoa.

It wasn’t the first time American presidential election choices inspired such angst among its citizens. ‘Move to Canada’ was a popular search phrase in 2004 after George W. Bush defeated John Kerry.

Regardless of the popularity of the search phrase, the number of American and British people who have migrated to Canada remains quite low. During each of the last 10 years, just 15,000 people from both nations together have sallied forth into the Great White North to become Canadian citizens.

## Weekly Focus – Think About It

“Aaah, summer – that long anticipated stretch of lazy, lingering days, free of responsibility and rife with possibility. It's a time to hunt for insects, master handstands, practice swimming strokes, conquer trees, explore nooks and crannies, and make new friends.”

--Darell Hammond, Founder and CEO of KaBOOM!

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\* International debt securities involves special additional risks. These risks include, but are not limited to, currency risk, geopolitical and regulatory risk, and risk associated with varying settlement standards. These risks are often heightened for investments in emerging markets.

\* 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.

\* The Standard & Poor's 500 (S&P 500) is an unmanaged index. 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 DJ Equity All REIT Total Return 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.

\* Economic forecasts set forth may not develop as predicted and there can be no guarantee that strategies promoted will be successful.

\* Past performance does not guarantee future results. Investing involves risk, including loss of principal.

\* You cannot invest directly in an index.

\* Consult your financial professional before making any investment decision.

\* Stock investing involves risk including loss of principal.

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