

Commentary

September 25, 2017

The Markets

Geopolitics, what is it good for? Absolutely nothin'!

In January, Robert Kahn of the *Council on Foreign Relations* wrote in *Global Economics Monthly*:

“Markets showed impressive resilience in the face of a range of geopolitical shocks in 2016, but recent market moves suggest this year could be different... It should be the year that global geopolitical risks provide the volatility in markets that I, and many other economists, have been predicting for some time.”

Kahn may share the bemusement of bond market prognosticators who have anticipated the end of the bull market in bonds for years and have yet to see their predictions prove out.

So far in 2017, investor confidence has remained impervious to geopolitical threats. *Bloomberg* reported, while diplomats at the United Nations stress over North Korea's threat to drop a hydrogen bomb, Russia's provocations along the borders of Eastern Europe, rising Middle East tensions, and conflict between the United States and China in the South China Sea, investors remain relatively sanguine.

The CBOE Volatility Index, or VIX, which measures market expectations for near-term volatility in the Standard & Poor's 500 Index (S&P 500), finished below 10 on Friday. Historically, the VIX has finished below 10 on just a few days in its history.⁵ While the very low level of the VIX doesn't tell us much about the future, *Barron's* reports it indicates investors are not too concerned about “what's happening now and what has happened.”

That contention appears to be supported by U.S. stock market performance. Despite hostile rhetoric between the United States and North Korea last week, the S&P 500 and Dow Jones Industrial Average both finished slightly higher.

Data as of 9/22/17	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	0.1%	11.8%	14.9%	87.9%	11.4%	5.1%
Dow Jones Global ex-U.S.	0.4	19.4	15.7	2.0	4.7	-0.6
10-year Treasury Note (Yield Only)	2.3	NA	1.6	2.6	1.7	4.6
Gold (per ounce)	-2.1	11.7	-3.3	2.2	-6.0	5.9
Bloomberg Commodity Index	-0.4	-3.0	-0.8	-10.6	-10.3	-7.1
DJ Equity All REIT Total Return Index	-2.5	5.4	0.5	9.8	9.6	5.9

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.

IT'S THE IG NOBEL AWARDS! On September 14, the 27th First Annual Ig Nobel Prize Ceremony kicked off with a flight of paper airplanes.⁸**IT'S THE IG NOBEL AWARDS!** On September 14, the 27th First Annual Ig Nobel Prize Ceremony kicked off with a flight of paper airplanes.

The winners were chosen by the publishers of the *Annals of Improbable Research*, which reviews, “Real research, about anything and everything, from everywhere. Research that's maybe good or bad, important or trivial, valuable or worthless.” The most important characteristic of the works published is they make people laugh and think.

The evening's entertainment included ceremonial bows from returning Ig winners John Culvenor, who received the 2003 Physics Prize for analyzing the forces required to drag sheep across various surfaces, and Deborah Anderson, who received the 2008 Chemistry Prize for testing whether a dark cola is an effective spermicide.

This year's winning research explored diverse and improbable ideas, including studies entitled:

- *Didgeridoo Playing as Alternative Treatment for Obstructive Sleep Apnoea Syndrome: Randomised Controlled Trial*, which discovered that, “Regular didgeridoo playing is an effective treatment alternative well accepted by patients with moderate obstructive sleep apnoea syndrome.”
- *Never Smile at a Crocodile: Betting on Electronic Gaming Machines is Intensified by Reptile-Induced Arousal*, which showed that, “At-risk gamblers with few self-reported negative emotions

placed higher average bets at the EGM after having held the crocodile when compared to the control.”

• *Is That Me or My Twin? Lack of Self-Face Recognition Advantage in Identical Twins* concluded that, “identical twins cannot tell themselves apart, visually.”

• *On the Rheology of Cats*, which explored whether a cat can be both a solid and a liquid and determined, “much more work remains ahead, but cats are proving to be a rich model system for rheological research.”

Each of the 10 Ig Nobel winners was given 60 seconds to explain themselves before being awarded a bust replica of a human head with a question mark on top of it, a certificate signed by a Nobel Laureate, and one trillion Zimbabweans.

Russian-born physicist Andre Geim was the first scientist to win both awards. He received a 2000 Ig Nobel Prize for his work using magnets to levitate frogs, and a 2010 Nobel Prize for discovering graphene (a new form of carbon).

Weekly Focus – Think About It

“Like a welcome summer rain, humor may suddenly cleanse and cool the earth, the air, and you.” --
Langston Hughes, American poet

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- * 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 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.
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- * You cannot invest directly in an index.
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- * Consult your financial professional before making any investment decision.

Sources:

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