Understanding Social Security Retirement Benefits

Join the FIS team and Tim Ott of Blackrock for a workshop to explore getting the most out of your Social Security Retirement Benefits.

Tuesday, September 10 ▪ 6 - 7 pm

Hotel Indigo ▪ 400 Brown Street, Columbus

Bring a friend! Just let us know who's coming – a light meal will be included.

Please RSVP by September 3 to cindy.forman@raymondjames.com or 812-378-0730 to reserve seats and food.

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FORMAN INVESTMENT SERVICES

20th Anniversary · 1999 - 2019 ·

Weekly Wrap Up • August 5-9, 2019 • formanis.com

What happened in the markets last week?

by David Abuaf - **Investment Manager, RJFS**

News for the Week

General Markets / Economic

1. Large banks are fighting a likely government effort to speed up how money moves through the Fed's payment system
    a. The Fed plans to develop a faster payments system for banks to exchange money, a public alternative to a network built by big lenders
2. Trump overruled advisors to raise tariffs on China after a heated exchange
3. The US Treasury labeled China a currency manipulator after their central bank let the yuan depreciate
4. The FDA said "data manipulation took place" during studies of gene therapy Zolgensma, by Novartis
5. Amazon's foray into the pharmacy business is sparking clashes with entrenched industry incumbents
6. Central Banks in India, New Zealand and Thailand cut rates aggressively as fallout from the US-China trade war intensified
7. Chinese exports rebounded in July, buoyed by shipments to Europe and Southeast Asia

Company News

1. Huawei's smartphone sales are surging in China as a patriotic buying spree helps to blunt the impact of widening US curbs on the telecom giant
2. Barneys is preparing a bankruptcy filing
3. Tyson and other chicken companies said they received Justice Department subpoenas, signaling an expansion of a probe into pricing
4. China's Tencent is negotiating to buy 10% of Universal Music from Vivendi for $3.36B
5. FedEx said it was ending its contract to deliver packages from online shopping giant Amazon

Interesting Stories

1. The University of Maryland and Cornell are the first universities ever to begin creating degrees and courses in the field of cannabis!

Turning Back the Clock to 1999

August 12, 1999: Shakira records her first live album in New York City, titled "MTV Unplugged."

Weekly Commentary

What the heck was that? The simple version: It was a week that began with a global selloff, but after a massive comeback, finished with very little damage done. The S&P 500 declined 0.5% to 2918.65. Trading, however, was far more complicated. The Dow gave up 767.27 points, or 2.9%, on Monday after China let its currency weaken past 7 yuan to the dollar. It rallied back more than 300 points on Tuesday. Then, after India, Thailand, and New Zealand decided that the global economic situation was dire enough to require some unexpected rate cuts, it tumbled another 580 points, or 2.3%, through Wednesday's low—before erasing nearly all of those losses.

In fact, the Dow would have been positive that day if it hadn't been for Walt Disney (ticker: DIS), whose stock dropped 4.9% after it released disappointing earnings.

If all that weren't enough, gold prices soared above $1,500 an ounce for the first time since 2013, while the 30-year U.S. Treasury briefly yielded 2.12%, its lowest since 2016.

Clearly, the market was signaling that something was very wrong.

Or maybe it was just the way the market was positioned that was responsible for the wild volatility. Part of the problem was that hedge funds were late to the rally, according to Nomura strategist Masanari Takada, and had only started building up bullish equity positions in mid-June. The market's sudden turn after the double whammy of the Federal Reserve's rate cut on July 31 and Trump's new tariff announcement on Aug. 1 meant that those positions quickly went from winners to losers. Trend-following commodity trading advisors, or CTAs, started dumping stocks on Monday, after the S&P 500 opened below its 50-day moving average, which also added to the extreme downside.

Takada expects more where that came from. "We would expect any near-term rally to be no more than a head fake, and think that any such rally would be best treated as an opportunity to sell in preparation for the second wave of volatility that we expect will arrive in late August or early September," he writes.

Sounds scary, right? JPMorgan strategist Marko Kolanovic swims in the same flows as Takada but comes away with a different point of view. With the S&P 500 now sitting between its 50-day and 200-day moving averages, CTAs have as much chance of being forced to buy as to sell, he says. The big market decline has also meant that corporations, which had been in blackout periods because of earnings season, were able to buy again. Kolanovic describes these companies as "sensitive to stock-price declines" and argues that the S&P 500's drop, likely caused repurchases to triple.

Funds that have fixed weightings to stocks and bonds might also be forced to rebalance earlier than normal thanks to the big drop in stocks and big gains in bonds. "Given very low liquidity, volatility will stay elevated," Kolanovic writes. "We do think that after a short period of stabilization, markets will regain previous highs."

You'll notice that none of this addresses the fundamentals, and that's because fundamentals had little to do with the moves. Rather, the volatility was the market's way of thinking through the potential impact of the new tariffs and an escalating trade war between the U.S. and China on fundamentals—and on how much those fundamentals would be worth.

Consider: At its 2019 peak on July 26, the S&P 500 was trading at 18.3 times forward earnings; at its closing low this past Monday, it was trading at 17.1 times. It finished the week roughly in between.

Time will tell if that's too much.

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