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

Weekly Wrap Up • August 12-16, 2019 • formanis.com

What happened in the markets last week?

by David Abuaf - Investment Manager, RJFS

News for the Week

General Markets / Economic

1. The housing market in small to midsize cities such as Boise and South Bend is enjoying a sustained upswing
2. Chinese auto makers are investing billions of dollars to establish footholds in foreign markets, from India to Africa and Europe
3. South Korea dropped Japan as a favored trading partner
4. Inflation accelerated in July as an underlying measure of consumer prices posted strong gains
5. US mortgage debt hit a record in the second quarter, exceeding the 2008 peak
6. American shoppers spent strongly in July, helping to counter weakness in US manufacturing resulting from simmering trade tensions and slowing global growth

Company News

1. GM and Volkswagen say that they see no future for hybrid vehicles in their US lineups and are concentrating their investment on fully electric cars
2. WeWork's parent firm unveiled the papers for its IPO

Interesting Stories

- A 35-year-old guy went on a first date. After a short while, he ducked out of the bar and snuck into the woman's car. She got suspicious when he'd been gone for a while. He broke the car window with a rock and was still inside when she went out to look for him. He had her cellphone and wallet in his hands. His excuse? He was "looking for gum in her car because he had bad breath"

Turning Back the Clock to 1999

August 20, 1999: The 7th Athletics World Championships open at Seville, Spain.

Weekly Commentary

Here there be dragons. That phrase, apocryphally said to have appeared on old maps to mark the unknown, could just as well describe the situation faced by investors today.

The Dow Jones Industrial Average dropped 401.43 points, or 1.5%, 25,886.01 this past week, while the S&P 500 fell 1% to 2888.68, and the Nasdaq Composite declined 0.8% to 7895.99. All three indexes fell for the third consecutive week.

At the risk of repeating myself, those moves, as large as they are, don't begin to reflect how wild the market's swings were. The S&P 500 has had intraday moves of 1% for 12 consecutive days through Thursday, the longest such streak since the 25 trading days that began on Dec. 5 and ran through Jan. 10. Before that, the S&P 500 had a 14-day streak that ran from Oct. 16 through Nov. 2

These types of streaks are rarely a sign of a happy market. This past week, the worry was all about tumbling bond yields. The 10-year Treasury yield traded as low as 1.47% on Thursday, its lowest since 2016, while the 30-year yield dropped below 2% for the first time ever. What's more, the yield on the 10-year briefly fell below that of the two-year, a yield-curve inversion that has historically presaged a recession by six to 18 months or so. (The yield on the 10-year Treasury fell below the three-month earlier this year.)

Normally, these signs would be enough to make investors plan for the end of the bull market, even if the market has a habit of rising between the first inversion and the start of a bear. But these aren't normal times. As soon as the yield curve inverted, the arguments about why it doesn't work the way it used to started flying fast and furious. The prevalence of negative-yielding bonds, goes one argument, has made U.S. debt more attractive to investors, making the low yields a reflection of demand rather than of economic conditions. Others point to the Federal Reserve's bond buying, which might have made bond yields artificially low. Even Janet Yellen got into the action by saying a yield-curve inversion may be a false recession indicator this time around.

But if something that was considered as reliable as the yield curve is no longer to be trusted, then the market really may be in uncharted waters. Perhaps that's one reason equities seem to react to every tick in the bond market. That wasn't the case at the end of July, when the correlation between the S&P 500 and the iShares 20+ Year Treasury Bond ETF (ticker: TLT) was close to nonsexist. Fast forward two weeks, and the correlation between the two is well negative 65% (a correlation of 100% means two assets move in lockstep; a correlation of negative 100% means they move in opposite directions). That suggests that investors are responding to any buying of bonds—and a drop-in yields—by selling stocks, and vice versa.

That was never more apparent than this past Thursday, when the 10-year yield suddenly dropped to around 1.47% from 1.52% and then bounced back, all in around 30 minutes—and the Dow Jones Industrial Average followed it almost to the tick.

Reacting to every move of the bond market is no way to invest. Even not fighting the Fed might not be the no-brainer it once seemed. Midcycle rate cuts in the 1990s helped prolong the cycle and send stocks higher. Fed Chairman Jerome Powell's cut last month, however, caused the market to fall. The rate cut was also cited by consumers as a reason for declining confidence in the University of Michigan Consumer survey, which fell to 92.1 from 98.4 in July.

That fact alone should prod reconsideration from those hoping for a half-point rate cut from the Fed's September meeting. "The Fed is in a precarious position," says Lori Heinel, deputy global chief investment officer at State Street Global Advisors. "If they cut too aggressively, they play into the idea that it's worse out there than it actually is."

And that's the problem: It's hard to tell just how bad it actually is out there. The economy is obviously slowing, but not necessarily heading for recession. That means it is time for caution, not panic. "The economy is slowing down, not falling off a cliff," says Carmel Wellso, director of research at Janus Henderson Investors. "I don't see a reason to panic." ... At least not yet.

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The yield curve is a graphic depiction of the relationship between the yield on bonds of the same credit quality but different maturities.

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There is no assurance any of the trends mentioned will continue or forecasts will occur. Forward looking data is subject to change at any time and there is no assurance that projections will be realized.

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Diversification and asset allocation do not ensure a profit or protect against a loss.

Investing in oil involves special risks, including the potential adverse effects of state and federal regulation and may not be suitable for all investors.

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