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September 2018

Market Update
(all values as of 08.31.2018)

Stock Indices:

Dow Jones	25,964
S&P 500	2,901
Nasdaq	8,109

Bond Sector Yields:

2 Yr Treasury	2.62%
10 Yr Treasury	2.86%
10 Yr Municipal	2.47%
High Yield	6.19%

YTD Market Returns:

Dow Jones	5.04%
S&P 500	8.52%
Nasdaq	17.47%
MSCI-EAFE	-4.33%
MSCI-Europe	-5.12%
MSCI-Pacific	-3.15%
MSCI-Emg Mkt	-8.85%
US Agg Bond	-0.96%
US Corp Bond	-1.98%
US Gov't Bond	-1.18%

Commodity Prices:

Gold	1,206
Silver	14.58
Oil (WTI)	69.88

Currencies:

Dollar / Euro	1.16
Dollar / Pound	1.30
Yen / Dollar	111.39
Dollar / Canadian	0.77

Macro Overview

Trade and tariffs continued at the forefront of discussions among the U.S. and international trading partners. Topics at hand included the North American Free Trade Agreement (NAFTA), the World Trade Organization (WTO), and protecting U.S. intellectual property rights internationally.

Emerging market currencies were rattled worldwide as turmoil with Argentina and Turkey spilled over into the broader markets. Contagion concerns spread in late August as Turkey's currency fell following comments by the European Central Bank (ECB). Argentina saw its currency collapse as it sought immediate financial assistance from the International Monetary Fund (IMF). Contagion refers to the threat of what is occurring in Turkey and Argentina could migrate to other emerging market economies. The brewing financial crisis with Turkey is similar to the government debt crisis that occurred with Greece eight years ago. Recently imposed U.S. sanctions on Russia added to emerging market distress as the Russian ruble weakened versus other major currencies and the U.S. dollar.

The stock market marked its longest period of uninterrupted gains in history, running 3,453 days from the market low on March 9, 2009 during the depths of the financial crisis. Since then, the Dow Jones Industrial Index catapulted from 6,500 to over 25,500 in August, while the S&P 500 sprang from 666 to over 2800.

It has been 10 years since the financial crisis of 2008 when financial markets experienced turbulence not seen in decades. An ultra low interest rate environment ensued for nearly a decade after the Federal Reserve began flooding the financial markets with massive amounts of liquidity in order to stem the crisis at hand. Since then, numerous legislation and regulations were implemented providing safety measures and guidelines.

Viewed as an optimistic indicator for the U.S. economy, inflation rose the most in seven years as consumer prices increased at an annual rate of 2.9%. While inflation is an indicator of economic expansion in the economy, wages are not keeping up with rising prices nationwide.

The Congressional Budget Office (CBO) released its summary of the most recent federal budget as of July. Federal spending increased by $143 billion, attributable to increases in Medicare, Medicaid, and Social Security expenditures. There was also a rise in individual taxes, a result of larger withholdings on paychecks which increased by $32 billion. That increase in withholdings reflects recent increases in wages and salaries, meaning that the economy is possibly experiencing more people working and at higher pay rates.

California is due to become the first state to impose a quota for the inclusion of women on the boards of publicly traded companies headquartered in the state. Other states are expected to follow California's lead by eventually implementing similar mandates.

Various social media and technology companies are facing criticism and possible regulatory oversight regarding the influence they maintain. Many see that the political and cultural clout held by just a few companies may eventually be of concern. (Sources: ECB, IMF, Dept. of Commerce, Bloomberg, http://www.leginfo.legislature.ca.gov, CBO)

THE TURKISH LIRA HAS FALLEN OVER 40% YEAR TO DATE VERSUS THE U.S. DOLLAR

Equities Maintain Their Resilience – U.S. Equity Markets

A persistent trade dispute between the United States and China has been lingering over the financial markets for some time now. Helping to buoy domestic markets are strong corporate earnings and improving economic data. Earnings from U.S. companies this quarter are being considered the healthiest since the third quarter of 2009 during the financial crisis.

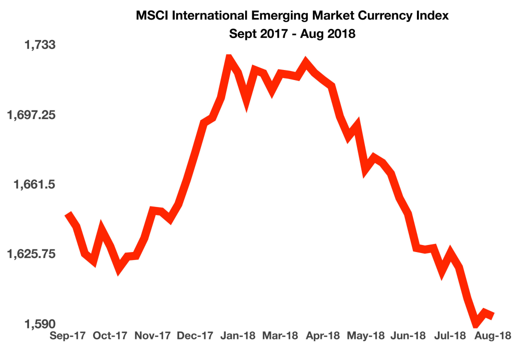
Some U.S. companies are seeing an increase in sales as well as an increase in gross margins, considered optimistic by equity analysts. The continued strength of the U.S. dollar, however, is starting to weigh on earnings for certain companies transacting business overseas.

The administration has proposed altering quarterly reporting for publicly traded U.S. companies to a semi-annual basis. Similar proposals have been made by companies and regulators in the past in order to stem volatility and focus on earnings. Recent news has focused on some companies going private and shedding the regulatory hurdles and burden caused by quarterly reporting.

Sources: Bloomberg, Federal Reserve Bank of St. Louis

Emerging Market Currencies Experience Volatility – International Currency Review

Currency valuations across the emerging markets are being affected by recent financial turmoil in Turkey and Argentina. The Turkish currency, the lira, has fallen over 40% year to date versus the U.S. dollar. The Turkish lira has been the hardest hit so far this year of all of the emerging market currencies. Emerging market currencies, as tracked and measured by the MSCI International Emerging Market Index, has had a continuous decline since the beginning of 2018.



Concerns about the exposure that European banks have to Turkish bonds became a forefront topic for global bankers. Government spending by Turkey has been equal to that of the government in Greece that led to the country's debt crisis in 2012. Circumstances that occurred in Greece are appearing in Turkey as mounting government debt has hindered the government's finances and integrity.

The Argentine peso has lost over half its value versus the U.S. dollar so far this year. A sell-off in the Argentine currency was exacerbated when the president of Argentina asked the International Monetary Fund to speed up its release of $50 billion in bailout funds for the country.

Ironically, the economic growth and strength of the U.S. dollar has been a catalyst for emerging market currency turmoil. The problem lies with dollar denominated debt owed by emerging market countries such as Turkey, Greece, Argentina, and Venezuela. As the U.S. dollar appreciates versus the currencies of these other countries, the cost to repay the debt increases.

Large international banks and institutional holders of emerging market debt buy insurance to protect themselves from default, should countries become unable to pay their debt. The insurance is known as credit default swaps or CDSs. The cost of insuring debt against a default has risen for various countries over the past few months, most notably Lebanon, Turkey, Pakistan, and Argentina. (Sources: Bloomberg, Reuters, FRED, IMF)

95% OF AMERICANS OWN A CELLULAR PHONE AND PAY A MONTHLY SERVICE FEE

Yields Continue To Flatten – Fixed Income Update

A flattening Treasury yield curve remained a focal topic among fixed income analysts in August. The shrinking spread, or difference, between the yield on the 2-year Treasury note and the 10-year Treasury bond reached levels not seen since 2007. The interpretation is that longer term economic growth is expected to be muted, which is reflected in the yield of the 10 year Treasury. The Federal Reserve is still on course for additional rate hikes, but at a very gradual pace.

Ten years have passed since the financial crisis that began in September 2008 when the Federal Reserve flooded the financial markets with massive amounts of liquidity in order to stem the crisis at hand. An ultra low interest rate environment followed for nearly a decade before the Fed reversed course and started raising rates once again.

The Federal Reserve mentioned during one of its meetings in August that it had determined when a prolonged period of low volatility exists, an increase in lending and risk-taking ensures.

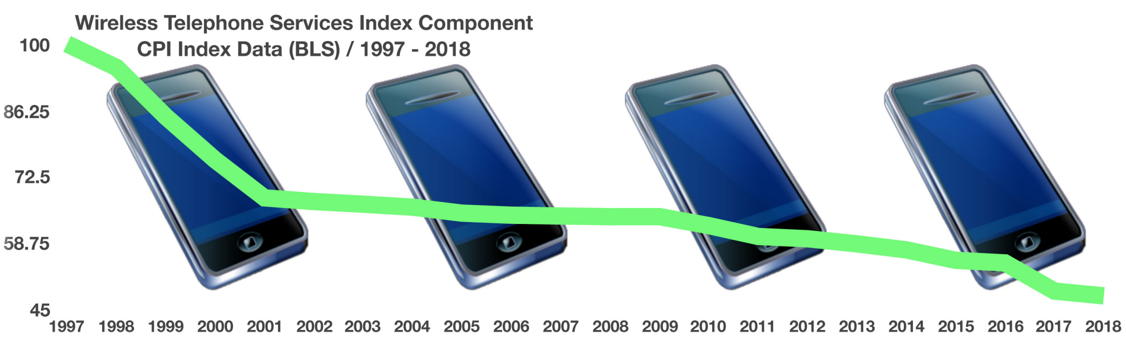
Sources: U.S. Treasury, Bloomberg

Wireless Rates Are Due To Climb – Consumer Expenditures

Cell phone bills are rising across the country as providers eliminate promotions and consolidate operations. The announcement of recent mega mergers in the industry has reduced the number of providers and lessened competition, leading to increased rates for customers.

As tracked by the Labor Department's Consumer Price Index (CPI), the cost of cell phone service is a measurable component of the index. Over the years, cell phone costs have become a vital and expensive service for consumers nationwide, almost as important as groceries or rent. It is estimated that roughly 95% of Americans own a cellular phone and pay a monthly service fee to one of several providers.

Following years of technological advancement and intense competition for market share, cellular providers kept rates low. Adjusted for inflation, cell rates have consistently fallen in price since 1997, meaning that as the price for other services rose, cellular rates fell.



The recent mergers and expansion of new cellular infrastructure has begun to raise rates. Rather than absorbing merger costs and infrastructure build out, cellular service providers are instead passing along the costs to consumers. The higher fees are considered inflationary and thus add to the overall inflationary pressures that are gradually rising.

Sources: BLS, Labor Department, https://www.bls.gov/news.release/cpi.nr0.htm

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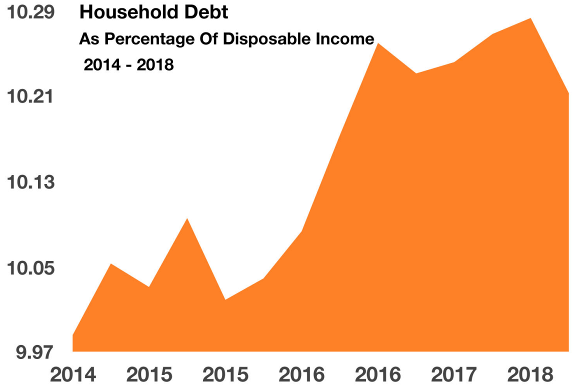
HOUSEHOLDS SPEND ABOUT 10.21% OF THEIR DISPOSABLE INCOME ON DEBT PAYMENTS

Households Holding Less Debt – Consumer Behavior

The New York Federal Reserve Bank compiles data on how much debt and what type of debt households have. The most recent release of debt data shows that household debt as a percentage of disposable income fell to the lowest levels since 2002. Debt payments include loans on autos, mortgages, education, and credit card balances.



The data shows that households are seeing less debt payments as a percentage of disposable income. Economists view the recent data from different perspectives. Optimistically consumers may be scaling back on debt payments and thus have more free cash to spend on goods, services, or savings. Pessimistically, consumers may be in the beginning stages of cutting back on borrowing, thus reflecting less confidence in their future income and/or overall financial position.

Either way, holding less debt in a rising interest rate environment is good for consumers since they are saving on the higher costs incurred from rising interest rates. The most recent data shows that households spend about 10.21% of their disposable income on debt payments, a slight decrease from levels over the past two years. (Source: New York Federal Reserve Bank)

Leading Scams Targeting Seniors – Retirement Planning

The National Council on Aging estimates that nearly 1 in 10 Americans over the age of 60 experiences some form of financial elder abuse.

IRS Scams: Callers claiming to be IRS agents often call unsuspecting seniors at home, accusing them of owing back taxes and having to pay immediately. The IRS impersonators threaten to foreclose on homes, garnish social security, and even threaten arrest unless payment is made immediately by phone. The IRS never makes outing calls to anyone, all correspondence is done via USPS or the IRS secured internet site. In addition, the IRS will never ask for payment information over the phone nor demand immediate payment.

Technology & Internet Fraud: Phone calls from individuals claiming to be from a major technology company target seniors. Callers ask for remote access to computers in order to gather sensitive data and financial details. Pop-up ads claiming to fix pop-up ads many times are fraudulent advertisements used to gather credit card numbers and personal details.

Sweepstakes Scam: Unreasonable or ridiculous calls regarding a prize or major sweepstakes winnings.

Other Scams: Fake charities and relatives needing money. Be sure to review bank and credit card statements carefully for fraudulent or suspicious activity. If fraud is suspected, it is suggested to contact credit bureaus and relatives. (Sources: National Council On Aging, IRS.gov)