



Treasury Yields Prompt Concerns

Weekly Update – March 25, 2019

The Week on Wall Street

Friday, the yield of the 3-month Treasury bill exceeded the yield of the 10-year Treasury note for the first time in 12 years. For some analysts, this “inverted yield curve” may imply a short-term lessening of confidence. (Treasury yields move inversely to Treasury prices.)ⁱ

As a result, the S&P 500 ended the week 0.94% lower. The Nasdaq Composite fell 0.80%, and the Dow Industrials lost 1.19%.^{ii,iii,iv}

In contrast, the MSCI EAFE index following international stocks rose, gaining 0.52% for the week.^v

Fed Sees No Hikes in 2019

On Wednesday, the Federal Reserve held interest rates steady, but lowered its estimate of 2019 economic growth to 2.1%.

Last December, the central bank forecast two rate hikes in 2019. It now expects to leave rates unchanged this year, with one quarter-point hike projected for 2020.

This pivot may acknowledge a slight change in economic conditions. The Fed’s latest policy statement noted that the “growth of economic activity has slowed from its solid rate in the fourth quarter.”^{vi}

Oil Hovers Near \$60

At Friday’s closing bell, a barrel of West Texas Intermediate (WTI) crude oil was valued at \$58.85 on the New York Mercantile Exchange (NYMEX). Its value briefly climbed to \$60 earlier in the week.

Month-over-month, the price of WTI crude has risen nearly 5%. Historically, higher oil prices can have a significant impact on retail gasoline prices.^{vii}

What’s Next

A U.S. delegation is scheduled to accompany Treasury Secretary Steven Mnuchin to China this week for further trade negotiations. Finally, Brexit will not occur this Friday, as the European Union has extended the United Kingdom’s deadline in response to Prime Minister Theresa May’s request.^{viii,ix}



THE WEEK AHEAD: KEY ECONOMIC DATA

Tuesday: The Conference Board's latest reading on consumer confidence.

Thursday: February pending home sales, and the federal government's second estimate of fourth-quarter Gross Domestic Product (GDP).

Friday: Reports on consumer spending and new home sales, and March's final University of Michigan consumer sentiment index, another measure of consumer confidence levels.

Source: Econoday / MarketWatch Calendar, March 22, 2019

The content is developed from sources believed to be providing accurate information. The forecasts or forward-looking statements are based on assumptions and may not materialize. The forecasts also are subject to revision. The release of data may be delayed without notice for a variety of reasons, including the shutdown of the government agency or change at the private institution that handles the material.

THE WEEK AHEAD: COMPANIES REPORTING EARNINGS

Monday: Winnebago (WGO)

Tuesday: KB Home (KBH)

Wednesday: Lennar (LEN), Lululemon Athletica (LULU), Paychex (PAYX)

Thursday: Accenture (ACN)

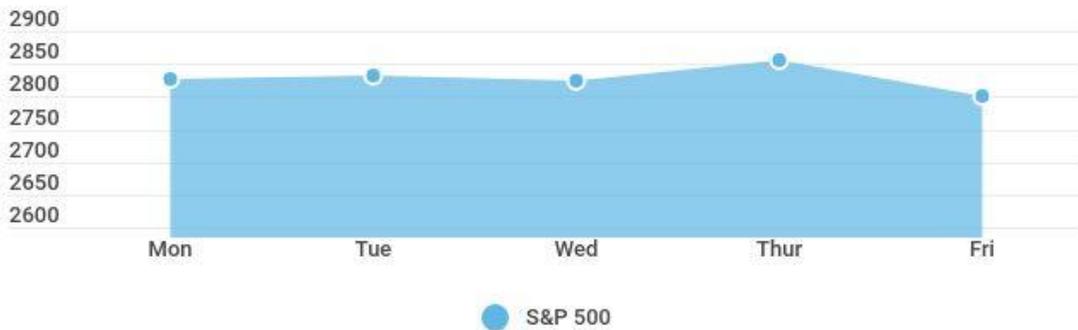
Friday: Blackberry (BB), CarMax (KMX)

Source: Morningstar.com, March 22, 2019

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Market Index	Close	Week	Y-T-D
DJIA	25,502.32	-1.19%	+9.32%
NASDAQ	7,642.67	-0.80%	+15.18%
MSCI-EAFE	1,900.10	+0.52%	+10.48%
S&P 500	2,800.71	-0.94%	+11.72%



	Treasury	Close	Week	Y-T-D
	10-Year Note	2.44%	-0.15%	-0.25%

Sources: The Wall Street Journal, Mar. 22, 2019, Treasury.gov, Mar. 22, 2019

The market indexes discussed are unmanaged and generally considered representative of their respective markets. Individuals cannot directly invest in unmanaged indexes. Past performance does not guarantee future results. Weekly performance is measured from Monday's open of trading to Friday's close for the Dow Jones Industrial Average, Standard & Poor's 500 index, and NASDAQ Composite. Weekly performance is measured from Friday's open to Thursday's close for MSCI-EAFE. U.S. Treasury Notes are guaranteed by the federal government as to the timely payment of principal and interest. However, if you sell a Treasury Note prior to maturity, it may be worth more or less than the original price paid. Weekly and year-to-date 10-year Treasury note yield are expressed in basis points. International investments carry additional risks, which include differences in financial reporting standards, currency exchange rates, political risks unique to a specific country, foreign taxes and regulations, and the potential for illiquid markets. These factors may result in greater share price volatility.



TAX TIPS

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Mileage Rates Increased for 2019

Each year, the IRS issues standard mileage rates used to calculate the deductible costs of operating vehicles for business, charitable, medical, or moving purposes.

As of January 1, 2019, the rates for vehicles used for the above purposes are:

- 58 cents per mile driven for business use
- 20 cents per mile driven for medical or moving purposes
- 14 cents per mile driven in service of charitable organizations

The IRS determines the standard mileage rate for business use based on an annual study of fixed and variable costs of operating a vehicle. The rate for medical and moving purposes is based on the variable costs.

Taxpayers have the option of calculating the actual costs of using their vehicle rather than using the standard mileage rates.

* This information is not intended to be a substitute for specific, individualized tax advice. We suggest that you discuss your specific tax issues with a qualified tax professional.

Tip adapted from IRS.gov^x

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Diversification does not guarantee profit nor is it guaranteed to protect assets.



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The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general.

The Dow Jones Industrial Average is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the NASDAQ. The DJIA was invented by Charles Dow back in 1896.

The Nasdaq Composite is an index of the common stocks and similar securities listed on the NASDAQ stock market and is considered a broad indicator of the performance of stocks of technology companies and growth companies.

The MSCI EAFE Index was created by Morgan Stanley Capital International (MSCI) that serves as a benchmark of the performance in major international equity markets as represented by 21 major MSCI indices from Europe, Australia, and Southeast Asia.

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.

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You cannot invest directly in an index.

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ⁱ <https://www.bloomberg.com/news/articles/2019-03-22/u-s-treasury-yield-curve-inverts-for-first-time-since-2007>

ⁱⁱ <https://quotes.wsj.com/index/SPX>

ⁱⁱⁱ <https://quotes.wsj.com/index/NASDAQ>

^{iv} <https://quotes.wsj.com/index/DJIA>



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v <https://quotes.wsj.com/index/XX/990300/historical-prices>

vi <https://www.cbsnews.com/news/fed-rate-hikes-none-in-2019-federal-reserve-projects-no-rate-hikes-slower-growth-this-year>

vii <https://money.cnn.com/data/commodities>

viii <https://www.cnn.com/2019/03/20/trump-says-china-tariffs-could-stay-in-place-amid-trade-deal-talks.html>

ix <https://www.nytimes.com/2019/03/21/world/europe/brexit-extension-eu-uk.html>

x <https://www.irs.gov/newsroom/irs-issues-standard-mileage-rates-for-2019>

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DIGEST

A BROAD LOOK AT IMPORTANT TRENDS THAT YOU MIGHT HAVE MISSED THIS WEEK

Weekly Dent Digest 3/22/2019

Fed to the Markets: We're Done!... The Federal Reserve held interest rates steady at its latest meeting, and then forecast no further rate hikes this year and only one next year.

What it means – That's it?! Over the last three years, the Fed has moved short-term rates from zero to a range of 2.25% to 2.50%, and now the central bank is claiming this is "normal." Hmm. Is it normal that effective rates, which is short-term rates minus inflation (about 2.1%), are flat? Is it normal that the Fed has precious little room to lower rates in the next downturn?

This isn't normal, but it might be the "new normal," where we muddle through with very low GDP growth and weak global economic growth. The problem is amplified by the biggest demographic transition in the history of the world as people in developed nations get older and save money along the way.

Lost in the Fed's forecast for low rates was the end of balance sheet action by September. The central bank will stop shrinking its balance sheet, holding steady at about \$3.5 trillion in assets. That is music to the ears of the administration because it means the Fed will keep sending along roughly \$75 billion in free money to the U.S. Treasury every year, representing "excess cash flow," or interest earned, on the bonds the Fed owns.

January Factory Orders Up 0.1%... The tiny gain in January comes after a flat reading in December.

What it means – Well, that’s not going to turn any heads. The good news in the report is that capital goods orders excluding defense and aircraft, which leaves business spending, rose 0.8%, matching the estimate from last week’s durable goods orders report. But that doesn’t help much when overall shipments fall 0.4% or inventories increase 0.5%.

This is part of what Fed Chair Jay Powell was referencing when he noted that the U.S. economy had softened in December and that the weakness carried over into 2019.

Existing Homes Sales Surge 11.2% in February to 5.5 million... January sales saw a downward revision from minus 1.2% to negative 1.4%.

What it means – After 12 months of steady decline in existing home sales, February’s pop is good news. Yet sales still sit about 2% below the level of last February, making last month’s number look more like a brief respite from a steady downward slide in the housing market.

We’re moving into the busy spring season for housing. If sales continue their trend of the past 11 months, that will put pressure on the Fed to lower rates.

Crude Prices Remain Elevated as Supply Drops... U.S. oil inventories fell 9.6% this week, as OPEC-plus maintained supply cuts.

What it means – OPEC and its broad alliance are holding 1.2 million barrels of oil off the market every day, which has driven the price of oil up about 20% so far this year. The ugly situation in Venezuela hasn’t helped supply concerns, as that nation’s output dwindles.

All of this leaves U.S. oil producers giddy as they pump more of the black gold out of West Texas, the Gulf of Mexico, and Nebraska. If OPEC-plus wants to give up market share for higher prices, U.S. producers will gladly pick up the slack. We now pump more than 12 million barrels per day, the most in U.S. history.

EU Gives Britain Until May 22, or April 12... EU officials gave British Prime Minister Theresa May an extension to negotiate the terms of leaving the EU. The UK has until May 22 if British lawmakers agree to May's proposal next week. But if they fail to do so, then Britain only has until April 12 to come up with a new proposal or face a hard Brexit.

What it means – Nothing says “unsettled” like telling the world’s fifth largest economy that potentially it must leave the world’s largest trading bloc in less than a month without trade agreements, border agreements, capital controls, or immigration issues settled.

This is where British lawmakers get to choose their legacy. They either want to be the dour-faced curmudgeons yelling “Damn the torpedoes!” as they head for the Brexit, or they want to be seen as rollovers for the EU and take May's compromise deal, which looks a lot like being in the EU for an undetermined amount of time, but you have to pay a lot more. Neither sound like good choices, but they spent two years forcing the issue without coming up with better solutions. Now it's here.

On a side note, a petition for a new Brexit vote has received two million signatures and crashed Parliament's website.

The issue will reverberate across Europe as continental economies deal with hiccups in trade and supply chains. This should exasperate the already slowing economies of countries like Germany, and pull down the British

pound as well as the euro. The news of the extension lifted the British pound and the euro while taking some value from the buck, but that shouldn't last. Eventually the situation will weigh on continental economies and give the dollar a boost even though the Fed just put rate hikes on hiatus.

Two-Thirds of Americans Filing for Bankruptcy Cite Medical Bills, Medical Problems, or Both as a Contributing Factor... Respondents cite higher costs and less coverage.

What it means – More Americans have medical insurance than at almost any time in history, so this might seem odd, but the problem is getting bigger. While a lack of coverage can be an issue, often it's the type of coverage a person carries. High deductible plans are becoming the norm. They can carry deductibles of \$6,000 for individuals and \$12,000 for families, if not more.

At a time when only 40% of Americans can come up with \$1,000 for an emergency, it's easy to see how a person with medical insurance could still be wiped out by medical costs.

Spot Price of Natural Gas Soars From \$3 to \$161 in Pacific Northwest... As the latest Polar Vortex tore through the region, customers turned up the heat and thereby dramatically increased the demand for natural gas. With little extra capacity in the system, the spot price of the fuel jumped 52 times the normal price.

What it means – This is an interesting contrast to the fact that oil and gas producers in the Texas Permian Basin region recently were essentially paying people to take their natural gas as production expanded beyond demand.

We need more pipelines to get the fuel from where it's produced to where it's used, but there are many groups that oppose them. That leaves people in the Pacific Northwest paying a lot to heat their homes when the temperature dips.

Covington Teen Sues CNN for \$275 Million... After suing The Washington Post for \$250 million, Covington, Kentucky, teen Nicholas Sandmann sued news network CNN for \$275 million, claiming defamation of character after the confrontation between Sandmann and Nathan Phillips at the Lincoln Memorial in January. In the days after the incident, CNN ran many stories portraying Sandmann as the aggressor, when video showing the opposite, that Phillips approached Sandmann, was readily available.

Before launching lawsuits, Sandmann gave all news outlets who showed him as the antagonist several days to apologize and run retractions as prominently as they ran the original stories. The Washington Post and CNN, among others, refused, and now they face the consequences.

Next Week - The last week of March brings up-to-date reports on housing starts, new home sales, and the S&P/Core Logic Case-Shiller Home Price Index, as well as the latest estimate of fourth-quarter GDP.

A handwritten signature in black ink, appearing to be the name 'Rodney' written in a stylized, cursive font.

Rodney

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