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August 2019

Market Update

(all values as of
07.31.2019)

Stock Indices:

Dow Jones	26,864
S&P 500	2,980
Nasdaq	8,175

Bond Sector Yields:

2 Yr Treasury	1.89%
10 Yr Treasury	2.02%
10 Yr Municipal	1.54%
High Yield	5.85%

YTD Market Returns:

Dow Jones	15.16%
S&P 500	18.89%
Nasdaq	23.21%
MSCI-EAFE	10.31%
MSCI-Europe	10.95%
MSCI-Pacific	9.26%
MSCI-Emg Mkt	7.38%

US Agg Bond	6.34%
US Corp Bond	10.47%
US Gov't Bond	7.05%

Commodity Prices:

Gold	1,421
Silver	16.19
Oil (WTI)	57.67

Currencies:

Dollar / Euro	1.11
Dollar / Pound	1.21
Yen / Dollar	108.63
Dollar / Canadian	0.75

Macro Overview

Trade tensions escalated as the U.S. announced a 10% tariff commencing September 1st on \$300 billion of Chinese imports that haven't yet been subject to any tariffs. The additional tariffs would essentially apply to nearly all imports from China. Another \$250 billion in Chinese imports have already been subject to a 25% tariff for the past few months.

Trade data from the Commerce Department shows imports from China have declined 12.6% over the past year, yet imports from South Korea, Taiwan, and Vietnam rose 9.2% during the same period. Other Asian countries are becoming substitute exporters of goods to the U.S. as Chinese exports to the U.S. have been subject to increasing tariffs.

Analysts and economists believe that a continuing low interest rate environment will help to offset the impact of escalating tariffs, as the low cost to borrow for consumers minimizes some of the tariff costs passed along to consumers.

Stock indices climbed in July to reach new record levels, driven by indications that the Federal Reserve was on track for an imminent rate cut. Equity and bond markets continued to move higher following a strong June, propelled by improved earnings and gradual economic expansion.

The newly elected Prime Minister of the United Kingdom is positioning the country for departure from the EU, also known as Brexit, on October 31st. Britain's exit from the EU has several other European countries closely monitoring how the exit will be orchestrated. The British currency, the pound, has fallen to its lowest levels against the euro since September 2017.

The Federal Reserve cut the Fed Funds rate on July 31st, making it the first rate cut since 2008. Markets pulled back as the Fed Chairman signaled that additional rate cuts were not expected to be ongoing. The rate reduction follows a series of gradual rate increases that began in 2015. The Fed Funds rate is a monetary policy tool used by the Federal Reserve to control the interest rate charged by banks for funds loaned amongst each other. It eventually affects consumer loans and mortgage rates as banks adjust to the modified Fed Funds environment.

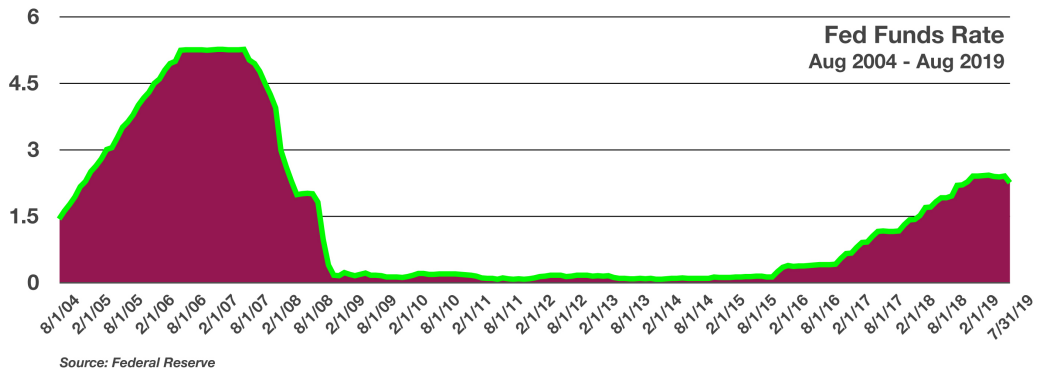
Even as the 10-year Treasury yield fell below 2.00% in July, it is still offering a more attractive yield than most other developed country government bonds. Yields for 10-year government bonds in Germany and Japan yielded -0.44% and -0.16% respectively. Such negative yields mean that investors are basically paying the governments of Germany and Japan to hold on to their funds. The U.S. economy has thus far not participated in the international slowdown prevalent in other countries. Stimulus efforts by the central banks around the world have lowered rates to where \$14 trillion of global bonds are generating negative yields.

The Senate passed legislation to suspend the debt limit for two years through July 31, 2021, eliminating the risk of default until the Senate votes on increasing it again in 2021. The existing limit as of the suspension currently exceeds \$22 trillion, nearly double from where it was 10 years ago. (Sources: Commerce Department, Federal Reserve, Bloomberg, U.S. Treasury Department, TreasuryDirect.gov)

Rates Drop Further – Fixed Income Overview

Fed Chair Jerome Powell communicated that the reduction in the Fed Funds rate was not going to be a series of reductions, but rather a wait and see approach contingent on economic progress over the next few months.

The Fed's reduction to the Fed Funds rate was the first since 2008 when the financial crisis had begun. The Fed Funds rate was essential zero from the end of 2008 to the beginning of 2016 when the Fed started raising the target rate again.



The 10-year Treasury yield dropped in July to its lowest level since 2016 as markets assessed the Fed Chairman's comments surrounding any possible rate cuts over the next few months. The Fed Funds futures market is pricing in a near certain possibility of another rate reduction in September 2019.

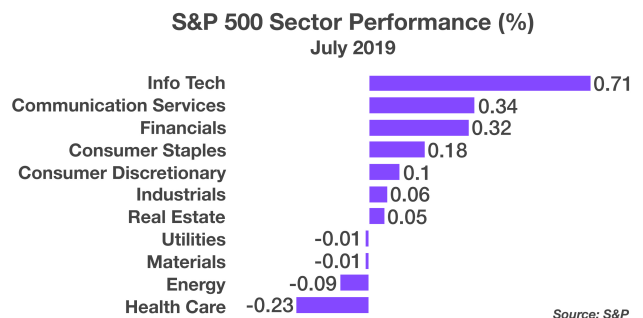
Negative interest rates outside the U.S., combined with expectations of weaker economic growth and minimal inflation, have weighed on long-term Treasury bond yields. (Sources: Federal Reserve, U.S. Treasury)

Low Rates & Improved Earnings Send Stocks To Highs In July – Equity Overview

While stocks were driven by a Fed rate cut expectation in July, earnings also became a focal point as economic weakness abroad and a strong dollar have created a challenge for earnings of U.S. multinational firms.

U.S. corporate earnings have proven to be more resilient than expected as earnings beat expectations for a swath of companies in the equity indices. The ability for companies to continue earnings increases in a slow growth environment is optimistic for the equity markets.

Sectors leading the equity markets in July included Information Technology, Communication Services, and Financials. Driven by better than expected earnings and revenue growth, the sectors were also influenced by the low rate environment and continuing consumer demand. (Sources: S&P, Federal Reserve)

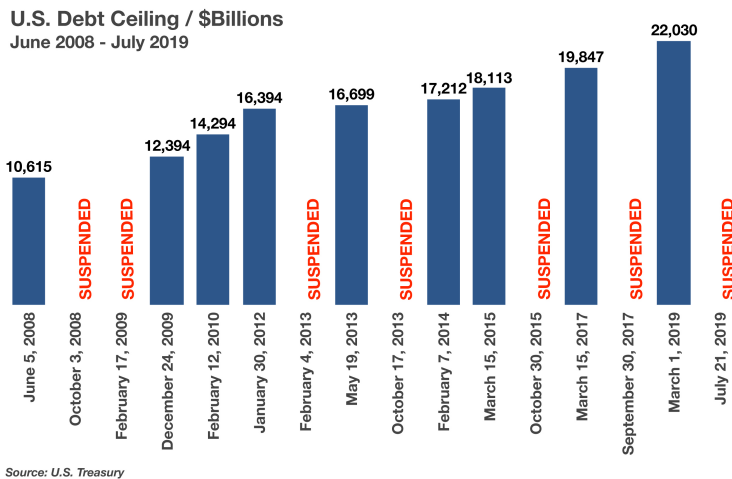


Debt Limit Gets Put On Suspension – Fiscal Policy Overview

Formally known as the statutory debt limit, the United States debt ceiling or debt limit is a legislative restriction on the amount of national debt that can be issued by the Treasury. The debt limit has been raised 79 times since its creation in 1917, with 17 of these increases occurring over the past 20 years.

The debt ceiling may also be suspended, meaning that spending can continue without a Congressional vote until a specific date. On July 21st, Congress voted to suspend the debt limit until July 21, 2021, thus allowing for an increase in borrowing to meet expected expenses over the next two years.

The United States has maintained legislative restriction on debt since 1917. To control the amount of total debt outstanding, Congress has placed restrictions on Federal debt issuance since the passing of the Second Liberty Bond Act of 1917, which eventually evolved into a general debt limit in 1939. The Second Liberty Bond Act of 1917 helped finance the United States’ entry into World War I, which allowed the Treasury to issue long-term Liberty Bonds.



Periodically, a political dispute arises over legislation to raise the debt ceiling. Until the debt ceiling is raised, the Treasury undertakes what is termed as “extraordinary measures”, which essentially buys more time for the ceiling to be raised.

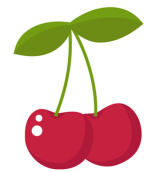
The United States has never reached the point of default, where the Treasury is unable to pay its obligations. In 2011 the United States reached a point of near default, which in turn

triggered the first downgrade of U.S. debt by credit rating agencies. Congress raised the debt limit with the Budget Control Act of 2011, which led to the fiscal cliff and set a new debt ceiling that was reached on December 31, 2012. (Source: Congressional Research Service)

How Tart Cherries Became The Latest Trade Battle – Trade Policy Update

Apart from high-tech components and mass produced gadgets from China, tart cherries imported from Turkey are encroaching on U.S. cherry farmers in Michigan and Washington.

The U.S. cherry industry petitioned the U.S. Commerce Department to impose tariffs on the import of tart cherries from Turkey. The complaint claims that cherry exporters are being subsidized by the Turkish government to dump tart cherries on the U.S. market at below market prices.

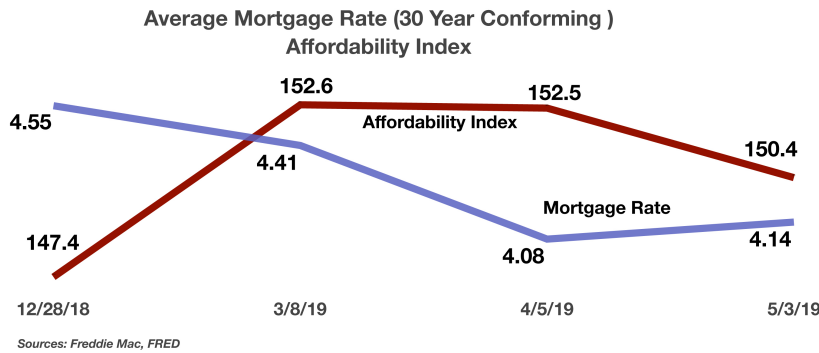


The USDA noted that in 2018 Turkey cherry exporters were selling tart cherries in the U.S. market for 89 cents per pound, while U.S. cherry farmers were selling the same tart cherries for \$4.60 per pound. Such a price disparity is identified as dumping by the Commerce Department, especially when government subsidies are suspected. (Sources: USDA, U.S. Commerce Department)

Mortgage Rates Drop But Homes Are Still Expensive – Housing Market Review

Falling interest rates have prompted an increase in mortgage activity as the cost to borrow for home buyers has become less expensive. Mortgage rates fell in late July to the lowest levels since late 2016, with the average on a 30-year fixed rate conforming loan falling to 3.75%, down from 4.94% in November 2018.

The challenge for many homebuyers has been rising home prices and affordability throughout the country. Slow rising wages and stagnant incomes have, for the most part, not kept up with rising home prices. Even though mortgage rates have dropped, housing prices are still elevated to the levels that force many to wait or rent until housing prices drop. Data tracked by the Federal Reserve Bank of St. Louis and Freddie Mac reveal that even as mortgage rates fell since the beginning of the year, affordability still declined. Affordability is the ability of a homebuyer to purchase a home and pay for all related expenses with an existing income.

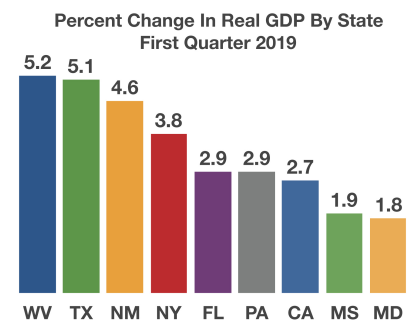


Mortgages accounted for two-thirds of the \$13.67 trillion in U.S. household debt in the first quarter. Because they are typically paid off over decades, mortgage rates tend to be correlated with 10-year Treasury bond yields rather than with the short-

term rates controlled by the Federal Reserve. (Sources: Federal Reserve Bank of St. Louis, Freddie Mac)

Some States Growing Faster Than The Rest Of The Country – Domestic Economy

Economic growth across the country varies by several factors, including demographics, education, weather, and industry. The first quarter of 2019 saw an increase in GDP of 3.2% nationwide, yet certain states realized much stronger growth than others. West Virginia topped every other state in the first quarter, with a 5.2% growth rate. Texas, New Mexico and Utah also saw greater than average growth over the same period. Some states, such as Texas, continue to experience a large influx of new residents from other states such as California. Texas offers more affordable housing, ample jobs, and no state income tax relative to California. Texas has also seen a tremendous demand for oil industry workers as the oil sector in the state has expanded because of shale drilling. States with older populations and less qualified workers are seeing less growth and even an exodus of people. New Jersey, Maryland, Mississippi and Hawaii were among the slowest growth states in the first quarter, where demographics and the cost of living influence the local economies more than other states.



(Source: U.S. Bureau of Economic Analysis)

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*Market Returns: Index data sources; MSCI, DJ-UBSCI, WTI, IDC, S&P. The information provided is believed to be reliable, but its accuracy or completeness is not warranted. This material is not intended as an offer or solicitation for the purchase or sale of any stock, bond, mutual fund, or any other financial instrument. The views and strategies discussed herein may not be appropriate and/or suitable for all investors. This material is meant solely for informational purposes, and is not intended to suffice as any type of accounting, legal, tax, or estate planning advice. Any and all forecasts mentioned are for illustrative purposes only and should not be interpreted as investment recommendations. Quint Wealth Management, Inc. (Quint Investments & Insurance) is a Registered Investment Adviser in New York. We are allowed to do business in New York and other states where we are registered, exempted, or excluded from registration. Investments involve risk and unless otherwise stated, are not guaranteed. Be sure to first consult with a qualified financial adviser and/or tax professional before implementing any strategy discussed herein. Insurance products and services are offered and sold through Quint Risk Management, Inc. and individually licensed and appointed insurance agents.