

Thursday, August 22, 2019

Good Afternoon,

While markets have scratched their way back to make up most of last week's losses, the obsession with the "inverted yield curve" continues. Today, the yield on the 2-Year Treasury has surpassed the yield on the 10-Year Treasury. At the instant it occurred (around 9:45 am), a strong market opening began to fade and stocks are at a moderate loss at midday. The fear is that we are headed over the recession cliff and Fed may not save us with sharp interest rate cuts next month. Trying to predict the Fed is not a solid investment strategy.

What we do know is that central banks across the globe have cut interest rates. In Germany, the 10-Year Bund has a negative yield of 0.6%. Investors are paying the government interest to hold their money! We are seeing foreign investors and nations buying US Treasuries in large quantities. First, they are guaranteed a positive yield, and second, they hold an asset denominated in US dollars – currently the world's safest currency. This added demand pushes the prices of US bonds up and yields down. (Bond prices and yields are inversely related.) Our bond market may be telling us more about the global economy than our own.

The US consumer remains strong despite global issues. While still positive, China's economic growth continues to slow. At least part of this trend is due to the trade conflict with the U.S., and this headwind is more likely to increase than decrease. Slowing Chinese growth is a major contributor to a global slowdown, and it is unclear how long the US economy can escape the global trend. The White House's tough trade stance may eventually contribute to the recession they are so desperate to avoid.

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http://www.commonwealth.com/RepSiteContent/weekly_comm/commentary_redirect.htm

As always, if you would like to discuss this or anything regarding current market conditions or your portfolio, feel free to contact me at any time.

Have a great week,

Wade

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