WEEKLY MARKET COMMENTARY

For the Week of July 16, 2018

THE MARKETS

Stocks edged higher Friday. Although financials dropped following disappointing reports from three big banks, gains in industrials and other areas helped the S&P 500 hit its highest close in more than five months. The Dow logged its best week in nearly a month. And the NASDAQ closed at a historical high. For the week, the Dow rose 2.32 percent to close at 25,019.41. The S&P gained 1.55 percent to finish at 2,801.31, and the NASDAQ climbed 1.79 percent to end the week at 7,825.98.

Returns Through 7/13/18	1 Week	YTD	1 Year	3 Year	5 Year
Dow Jones Industrials (TR)	2.32	2.41	18.75	14.46	12.81
NASDAQ Composite (PR)	1.79	13.36	24.73	15.56	16.80
S&P 500 (TR)	1.55	5.86	16.69	12.40	13.08
Barclays US Agg Bond (TR)	0.18	-1.20	0.05	1.97	2.41
MSCI EAFE (TR)	0.16	-2.05	6.38	4.76	5.67

Source: Morningstar.com. *Past performance is no guarantee of future results. Indexes are unmanaged and cannot be invested into directly. Three- and five-year returns are annualized. The Dow Jones Industrials, MSCI EAFE, Barclays US Agg Bond and S&P, excluding “1 Week” returns, are based on total return, which is a reflection of return to an investor by reinvesting dividends after the deduction of withholding tax. The NASDAQ is based on price return, which is the capital appreciation of the portfolio, excluding income generated by the assets in the portfolio in the form of interest and dividends. (TR) indicates total return. (PR) indicates price return. MSCI EAFE returns stated in U.S. dollars.

Not a Record We Want — The total U.S. debt is projected to reach $21.5 trillion by the end of fiscal year 2018 (i.e., Sept. 30, 2018), equal to 107 percent of the size of the U.S. economy. That’s the highest level of debt relative to the size of our nation’s economy since 1947 (source: Office of Management and Budget, BTN Research).

Look Back — As of June 30, the total return of the S&P 500 was +14.4 percent for the trailing one year, +11.9 percent per year for the last three years, +13.4 percent per year for the last five years and +10.2 percent per year for the last 10 years (source: BTN Research).

From Lowest to Now — The yield on the 10-year Treasury note closed at 1.36 percent on July 8, 2016, its lowest closing yield ever. Ten-year notes have been traded in the U.S. since 1790, i.e., 228 years of trading. The yield on the 10-year note closed on Friday, July 6, 2018, at 2.82 percent (source: Treasury Department, BTN Research).

WEEKLY FOCUS – What to Know About Interest Rates

During much of the extended Bull Run preceding 2018, cheap money flows and low-interest rates helped drive the market. But that tide has turned. Thanks to a growing economy and positive jobs reports, the Federal Reserve made its seventh interest rate hike in two years in June and signaled two more increases are probably coming this year. Here's how climbing rates may affect different groups:

Credit Card Holders: Rising interest rates can be bad news for Americans with considerable credit card balances. Bankrate reports average credit card rates are at a record high of 17 percent. Credit card borrowers will want to shop around for better rates or a zero-interest balance transfer and aggressively pay their cards down.

Millennials: Individuals with variable-rate school loans will also feel the pinch. They may want to combine their federal and private loans into one fixed-rate, lower-interest loan. But they should weigh that choice carefully since they could lose federal loan benefits, such as deferment, forbearance and forgiveness.

Homeowners: Although longer-term loans like mortgages react more slowly to increases, home shoppers may want to move soon in the likelihood of future hikes. Since home equity loans are more directly linked to the prime rate, baby boomers may prefer to downsize to a home that allows them to age in place rather than financing a remodel of their present home.

Investors: One might expect rising interest rates to impact equities negatively as conservative investments like bonds and Treasury notes become more appealing. But stock prices also reflect investors' outlook on the economy and may retain their appeal when rising rates are tied to economic confidence. And certain sectors can actually benefit from rising rates, such as financial institutions, which generally raise interest on loans faster than the interest they pay.

When interest rates rise or are expected to rise, bond prices often fall, particularly longer-term bonds. But investors must weigh the risk of falling prices with longer-term bonds against smaller returns with short-term bonds. Some invest in bonds with varying maturities to reduce these risks. Often, a 401(k) bond fund will recoup potential losses over time as it acquires new bonds at higher yields.

* 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 index of 30 actively traded blue-chip stocks. NASDAQ Composite Index is an unmanaged, market-weighted index of all over-the-counter common stocks traded on the National Association of Securities Dealers Automated Quotation System. The Morgan Stanley Capital International Europe, Australia and Far East Index (MSCI EAFE Index) is a widely recognized benchmark of non-U.S. stock markets. It is an unmanaged index composed of a sample of companies representative of the market structure of 20 European and Pacific Basin countries and includes reinvestment of all dividends. Barclays Capital Aggregate Bond Index is an unmanaged index comprised of U.S. investment-grade, fixed-rate bond market securities, including government, government agency, corporate and mortgage-backed securities between one and 10 years.