

NEWS LETTER

Market Update

Interest Rates, Treasuries and Inflation

February 26, 2018

Last week, the Presidents' Day holiday meant markets were only open for 4 trading days, and during that time, we received comparatively few economic reports. Nonetheless, major domestic indexes showed considerable volatility and posted losses for 3 straight days. By Friday, however, stocks rebounded and ended the week in positive territory.¹ For the week, the S&P 500 gained 0.55%, the Dow added 0.36%, and the NASDAQ was up 1.35%.² International stocks in the MSCI EAFE lost ground, dropping 0.50%.³

What drove market performance last week?

Once again, inflation and interest rates were on many investors' minds. In particular, multiple reports from the Federal Reserve contributed to performance.

On Wednesday, the Fed released minutes from its January meeting, which indicated that officials had concerns about inflation.⁴ The minutes revealed that between rising inflation and economic growth, the Fed sees justification for continued interest-rate increases. In reaction to the news, 10-year Treasury note yields hit their highest level in 4 years.⁵

How do treasury yields and stock prices affect each other?

To say that the interaction between treasuries and stocks is complex would be an understatement. At its most basic, prices for stocks and bonds usually move in opposite directions. When stock prices go up, bond prices drop—and vice versa. For treasuries and other bonds, yields rise when their prices drop. As a result, when the stock market jumps, treasury yields often do, too.⁶

Last Wednesday, however, rising yields may have contributed to a drop in the markets.⁷ Why?

Some investors become concerned when 10-year Treasury yields hit 3%, since that percentage level has aligned with bear markets for the past several decades.⁸ On Wednesday, the yields hit 2.94%—just a sliver away from that "warning" level.⁹

Please note that the rate-driven analysis triggering this concern is likely far too simple and may not accurately predict what's ahead.¹⁰ With that said, the concern still has the ability to affect investor reactions.

What happened later in the week?

Friday, the Fed shared more information with a new report on its monetary policy. The details helped allay some investors' fears of interest rates increasing too quickly. In reaction, yields on 10-year Treasury decreased to 2.87%—and the S&P 500 had its largest gain in weeks.¹¹

What's on the horizon?

After receiving multiple perspectives from the Fed last week—but relatively few new data updates—we should gain significant economic insight this week. From a Gross Domestic Product reading to perspectives on manufacturing and consumer confidence, investors will have many fresh data points to analyze.¹² We will monitor these updates closely and continue to help you stay informed about where the economy stands and what to expect in your financial life.

ECONOMIC CALENDAR

Monday: New Home Sales

Tuesday: Durable Goods Orders, Consumer Confidence

Wednesday: GDP

Thursday: Motor Vehicle Sales, PMI Manufacturing Index, ISM Mfg Index

Friday: Consumer Sentiment

DATA AS OF 2/23/2018	1 WEEK	SINCE 1/1/18	1 YEAR	5 YEAR	10 YEAR
STANDARD & POOR'S 500	0.55%	2.76%	16.22%	12.63%	7.34%
DOW	0.36%	2.39%	21.62%	12.57%	7.41%
NASDAQ	1.35%	6.29%	25.74%	18.34%	12.28%
INTERNATIONAL	-0.50%	0.70%	17.06%	4.47%	0.20%
DATA AS OF 2/23/2018	1 MONTH	6 MONTHS	1 YEAR	5 YEAR	10 YEAR
TREASURY YIELDS (CMT)	1.38%	1.85%	2.02%	2.62%	2.88%

Notes: All index returns (except S&P 500) exclude reinvested dividends, and the 5-year and 10-year returns are annualized. The total returns for the S&P 500 assume reinvestment of dividends on the last day of the month. This may account for differences between the index returns published on Morningstar.com and the index returns published elsewhere. International performance is represented by the MSCI EAFE Index. Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly.

QUOTE OF THE WEEK



"Integrity is the essence of everything successful."

–R. Buckminster Fuller

RECIPE OF THE WEEK



Sausage and White Bean Bake

Serves 4

Ingredients:

8 small sweet Italian sausages, about 1½ pounds
1½ cup grape or cherry tomatoes
2 cloves garlic
2 tablespoons fresh oregano leaves
2 15-ounce cans cannellini beans
½ cup dry white wine
½ cup low-sodium chicken broth
Salt
Black pepper



Directions:

1. Preheat oven to 400°F.
2. Heat a large, deep oven-safe skillet over medium heat.
3. Mix in 1 tablespoon olive oil and 8 small sweet Italian sausages.
4. Completely brown the sausages (8-10 minutes) and then take them out of the skillet.
5. Slice the tomatoes in halves.
6. Cut up garlic and oregano leaves.
7. Rinse the cannellini beans.
8. Put the sliced garlic and oregano mix in the skillet and stir for about 1 minute.
9. Add the beans and the dry white wine. Simmer for about a minute.
10. Put in the low-sodium chicken broth, the tomatoes, and a ¼ teaspoon each of salt and black pepper.
11. Add the sausages into the mix and transfer the skillet to the oven.
12. Cook until the sausages are done completely (8-10 minutes).

Recipe adapted from Good Housekeeping.¹³



How Do You Choose a Tax Preparer?

Choosing a tax preparer isn't like choosing drapes, a new sofa set, or even a lawn care company. Preparing taxes is serious business. One number in the wrong column, one decimal point out of place, or one missed deduction, and you may be paying big time.

So, how do you find a good, reliable tax preparer who knows what it's to dot and what t's to cross? Here are 10 tips from the IRS to help you find the right preparer:

1. **Check their qualifications.** The IRS's Directory of Federal Tax Return Preparers with Credentials and Select Qualifications is a good starting point.
2. **Check their history.** The Better Business Bureau may identify any red flags. Check for disciplinary actions and the license status for credentialed preparers.
3. **Ask about service fees.** Avoid preparers who base fees on a percentage of the refund or who boast bigger refunds than their competition.
4. **Ask to e-file.** Taxpayers should make sure their preparer offers IRS e-file.
5. **Make sure the preparer is available.** Taxpayers may want to contact their preparer after this year's April 17 due date. Avoid fly-by-night preparers.
6. **Provide records and receipts.** Good preparers will ask to see a taxpayer's records and receipts.
7. **Never sign a blank return.** Don't use a tax preparer who asks a taxpayer to sign a blank tax form.
8. **Review before signing.** Before signing a tax return, review it. Ask questions if something is not clear. The preparer should give you a copy of the completed tax return.
9. **Ensure the preparer signs and includes a PTIN.** All paid tax preparers must have a Preparer Tax Identification Number. By law, paid preparers must sign returns and include their PTIN.
10. **Report abusive tax preparers to the IRS.** Most tax return preparers are honest and provide great service to their clients. However, some preparers are dishonest. Report abusive tax preparers and suspected tax fraud to the IRS. Use Form 14157, Complaint: Tax Return Preparer. If a taxpayer suspects a tax preparer filed or changed a return without the taxpayer's consent, the taxpayer should file Form 14157-A, Return Preparer Fraud or Misconduct Affidavit.

Tip adapted from IRS.gov.¹⁴

* 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 advisor.



Throwing Your Next Shot

The goal of the golf swing is to send the ball farther down the fairway—where you want it to go. The speed of the club at impact is arguably the single most important factor in accomplishing that. So, if you can find a way to improve your speed while at the same time maintaining accuracy, you're on your way to the big time.

One PGA Tour player, Kevin Streelman, says the key is in the feel of the swing. The swing should feel like a slinging sidearm throw, not the smash of an axe going into a tree, he says.

Here are some “feeling” tips to put the punch back in your swing:

- Imagine you're performing an athletic throw.
- Do this with your arms in front of your chest during the downswing.
- In that position, you can compress the ball as you rotate out of the way.
- Shorten the space between your right elbow and your right hip.
- Keep your elbow tucked in close.

The goal is to get the right elbow in the right position so that your upper body turns aggressively enough to make it feel like you're throwing.

Tip adapted from Golf Digest.¹⁵



The Myths of Insomnia

“You snooze, you lose” may be good advice for the inattentive, the procrastinator, and the indecisive among us. But for those who have trouble getting a good night's sleep, or staying asleep, some sound snoozing would be absolutely dreamy.

For those who struggle with occasional bouts of insomnia, it may not be what you don't know about sleep that's keeping you awake, but what you do know that's wrong. Here are some common myths—and the facts—about insomnia:

- You might think that cocktail before bed will help you sleep. Wrong. Alcohol might initially make you drowsy, but it often leads to restless sleep and waking early.

- It's all in your head. That's partly true. Stress can cause insomnia. But poor sleep hygiene, illness, chronic pain, restless leg syndrome, sleep apnea, or other physical ailments can keep you wide awake.
- Exercise is good for promoting sleep. Sort of. Regular exercise as part of a healthy lifestyle is definitely good. But a workout too close to bedtime is a big red flag; strenuous exercise raises body temperature. The rule: Don't work out 2-3 hours before going to bed.
- Watching TV or reading on your computer before bed? Not so good. The light and the noise reduce brain melatonin levels. You want your melatonin levels high to help induce sleep. If you need some stimuli, try listening to relaxing music.
- Modern sleeping medications aren't like those of earlier times, so they're generally safe and effective, right? You might want to rethink that one. All medications have potential side effects and risks. Dependency is a big one. If you're having difficulty sleeping and you're interested in temporarily taking an over-the-counter sleep aid, consult with your doctor. Sleep aids may relieve symptoms of insomnia, but they do not provide a cure.

Implementing a few lifestyle habits into your daily schedule can make bedtime refreshing and relaxing.

Tip adapted from WebMD.¹⁶



How to Take an Environmentally Friendly Coffee Break

Life without coffee. It's something many of us refuse to contemplate. That morning Joe is, after all, the elixir of life.

So, how do you inject your environmentally friendly principles into your morning—or afternoon or evening—coffee break?

Here are 6 tips to make your coffee more “green”:

1. Get a reusable mug. Polystyrene that coffee cups are made from is bad for the environment and is not biodegradable.
2. Go with the local brewers and cafes. That way you promote local businesses.
3. Don't use the individually packaged coffee shots, sugars, creamers, or throwaway stirrers.
4. Use organic and shade-grown. Certified Organic coffee is grown and processed without toxic chemicals.
5. Do it yourself. Buy a French press or ceramic coffee dripper, which doesn't require electricity and provides a more “pure” taste.

6. Recycle the grounds. Use old grounds to clean pots and pans, or use them to absorb odors in your refrigerator. Used grounds also make great plant fertilizers.

Tip adapted from EarthShare.¹⁷

Share the Wealth of Knowledge!

*Please share this market update with family, friends, or colleagues.
We love being introduced!*



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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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¹ <http://wsj-us.econoday.com/byweek.asp?day=20&month=2&year=2018&cust=wsj-us&lid=0>

<https://www.cnbc.com/2018/02/23/fed-sees-economy-past-full-employment-but-with-only-moderate-wage-gains.html>

² <http://performance.morningstar.com/Performance/index-c/performance-return.action?t=SPX®ion=usa&culture=en-US>

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<http://performance.morningstar.com/Performance/index-c/performance-return.action?t=@CCO>

³ <https://www.msci.com/end-of-day-data-search>

⁴ <https://www.marketwatch.com/story/heres-why-stock-market-investors-need-to-keep-an-eye-on-the-yield-curve-2018-02-22>

⁵ <https://www.cnbc.com/2018/02/23/us-stock-futures-dow-data-earnings-and-politics-on-the-agenda.html>

⁶ <https://finance.zacks.com/correlation-treasuries-stocks-10871.html>

⁷ <https://www.marketwatch.com/story/heres-why-stock-market-investors-need-to-keep-an-eye-on-the-yield-curve-2018-02-22>

⁸ <https://www.cnbc.com/2018/02/23/us-stock-futures-dow-data-earnings-and-politics-on-the-agenda.html>

⁹ <https://www.treasury.gov/resource-center/data-chart-center/interest-rates/Pages/TextView.aspx?data=yield>

¹⁰ <https://www.marketwatch.com/story/heres-why-stock-market-investors-need-to-keep-an-eye-on-the-yield-curve-2018-02-22>

¹¹ <https://www.cnbc.com/2018/02/23/us-stock-futures-dow-data-earnings-and-politics-on-the-agenda.html>

<https://www.bloomberg.com/news/articles/2018-02-22/asian-stocks-set-to-edge-higher-dollar-slides-markets-wrap>

¹² <http://wsj-us.econoday.com/byweek.asp?day=26&month=2&year=2018&cust=wsj-us&lid=0>

¹³ <http://www.goodhousekeeping.com/food-recipes/easy/a46936/sausage-and-white-bean-bake-recipe/>

¹⁴ <https://www.irs.gov/newsroom/ten-tips-for-choosing-a-tax-preparer>

¹⁵ <https://www.golfdigest.com/story/dont-hit-your-next-shot-throw-it>

¹⁶ <https://www.webmd.com/sleep-disorders/ss/slideshow-insomnia>

¹⁷ <http://www.earthshare.org/2010/09/how-to-make-your-next-coffee-break-extra-green.html>