

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

## Dear Friends,

With time and discipline, you can make good money investing in the stock market. But the successful families we serve require that our expertise add value in **all** areas of their financial house, not just by managing stocks and bonds. That is how we **preserve** your wealth for the future. This frequently requires working with experts in technical areas like tax and law, and in this community we are blessed with many skilled professionals that we partner with. At Sweet Pea earlier this month I was reminded what a fantastic community we live, work and play in. Thank you Montana, I wouldn't change a thing!

### Is the Market showing more False

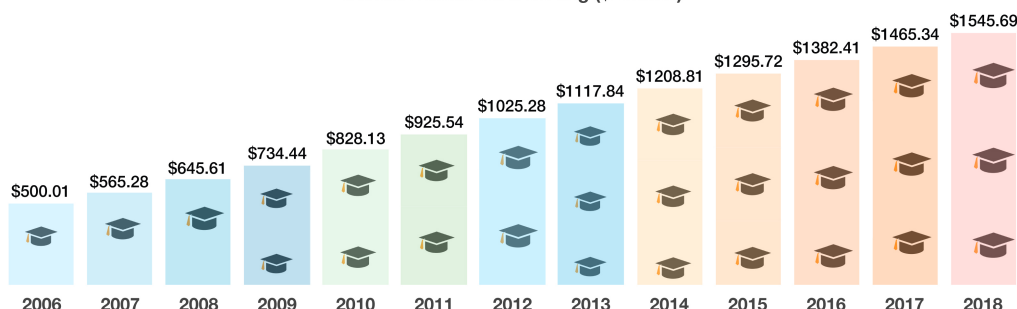
**Summits?** This was my 5th Ridge Run that I completed and there was plenty of time to contemplate how these comparisons to our erratic and sometimes punishing stock market seem appropriate. Racing the 20 mile Bridger Ridge is basically a day of false summits and all of the emotions you have room for. In the end, markets go up, blisters heal, and cold beer gets passed around. However, in the short term, we are positioned for more false summits and emotional market swings.



Trade tensions with China continue to dominate the headlines, and the impact is becoming measurable. 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. This is a good sign. Efficient global markets adjust to new opportunities and adapt. Time and investment discipline will prevail, again.

**Back to School Alert!** Student loan debt has risen to \$1.5 Trillion! It is now the second highest consumer debt category (behind only mortgage debt) and higher than both credit cards and auto loans. This debt is reducing home ownership among millennials and generally a big drag on their financial success. College is normally a profitable investment, but borrower beware! We generally suggest you focus first on maximizing retirement savings and reducing debt before saving for college. But there also has to be a plan to make sure any debt for college is repaid, and in short order too!

Student Loans Outstanding (\$Billions)

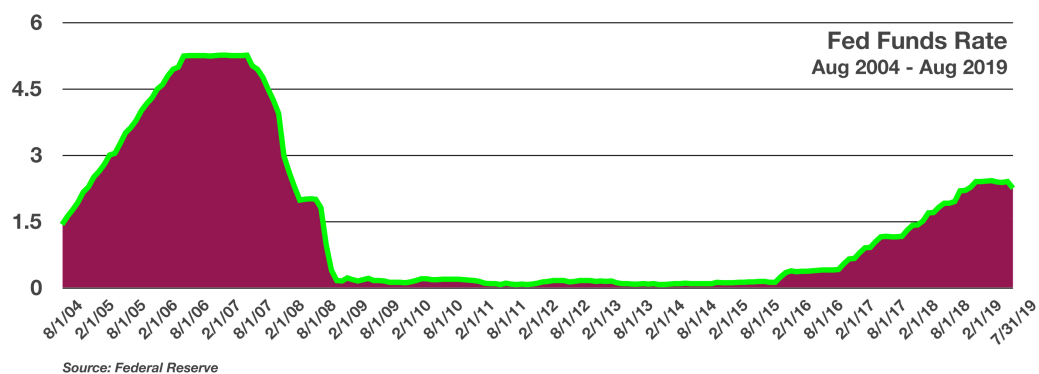


Source: Federal Reserve Bank of St. Louis

## 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.

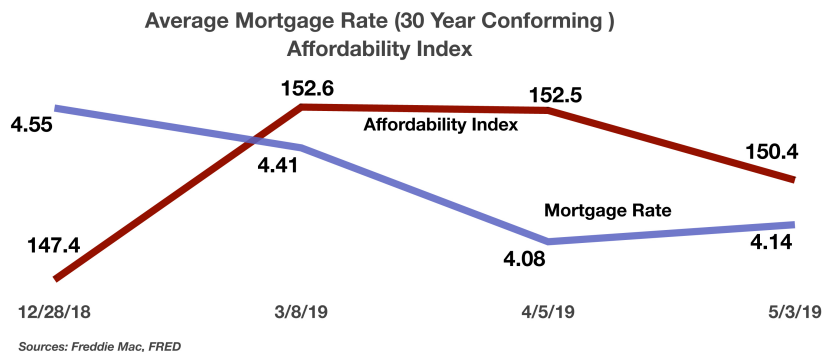
The Fed's reduction to the Fed Funds rate was the first since 2008 when the financial crisis had begun. The Fed Funds rate was essential zero from the end of 2008 to the beginning of 2016 when the Fed started raising the target rate again. (Sources: Federal Reserve, U.S. Treasury)



## 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-

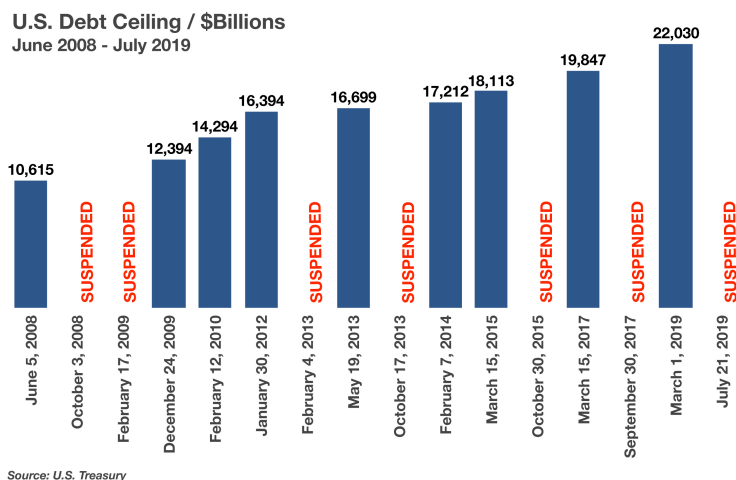
term rates controlled by the Federal Reserve. (Sources: Federal Reserve Bank of St. Louis, Freddie Mac)

## 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)

## International Bonds – They cost you money to own

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.

## About Us

Our clients enjoy the feeling of having their financial lives kept in order. Freedom from worry comes from working with an experienced advisor that understands your entire financial life and is accessible and attentive to your needs. As a fiduciary, Mike is unable to receive commissions from financial products and free to make recommendations that are unbiased by Wall Street. With over a decade of experience caring for a small family of clients, our specialties are preserving wealth and generating sustainable income. Our average client net worth ranges from \$2 to \$10 Million. Go outside, we've got this.

### MFA Events Calendar

Radio	Wednesdays 7am, 1450am KMMSam.com
September 3	Back to School – Thank you Teachers!
September 11	Brew Run Series 5k Sponsors – Run and Refresh! tbd
October 26th	Run for your Life Sponsors – Costume Fun Run to benefit the Suicide Help Line <a href="http://bozemanhelpcenter.org">bozemanhelpcenter.org</a>

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