

# Weekly Market Commentary

## December 5, 2016

### The Markets

Flirting with higher interest rates.

Last week, yields on 10-year Treasury bonds rose to a 17-month high of 2.44 percent, reported *The Wall Street Journal*, before retreating to finish the week at about 2.4 percent.

As we've mentioned previously, some experts suspect the bull market in bonds, which has persisted for more than 30 years, may be headed into bear territory. In part, this is because the U.S. Federal Reserve is expected to increase the fed funds rate in December. Last week, *CME's FedWatch Tool* indicated there was almost a 99 percent chance the Fed would raise rates in December. Bond yields often reflect the actions of the Fed. If interest rates rise, bond prices move lower, resulting in a higher bond yields.

Another issue affecting interest rates is inflation. For several years, low inflation has supported the "trend within markets...to invest in rate-sensitive investments like bonds, which benefit from low inflation, and their equity surrogates which benefit from falling bond yields," wrote *Schroders*.

In recent weeks, the bond market has been influenced by inflation prospects. *The Wall Street Journal* explained:

"Worries about higher inflation have been a main factor fueling one of the biggest bond market selloffs since the crisis over the past weeks. The selloff had accelerated after the U.S. election in early November. Investors then had bet that the prospect of expansive fiscal and economy policy from the new U.S. administration would lead to stronger growth and higher inflation."

Last week, a measure of wage inflation moved slightly lower. This appears to have assuaged some investors' concerns about inflation as bond yields moved lower on Friday.

Data as of 12/2/16	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	-1.0%	7.2%	5.4%	6.8%	12.0%	4.5%
Dow Jones Global ex-U.S.	-0.1	-0.7	-3.0	-3.8	1.9	-1.3
10-year Treasury Note (Yield Only)	2.4	NA	2.2	2.8	2.0	4.4
Gold (per ounce)	-1.2	10.5	11.2	-1.5	-7.7	6.2
Bloomberg Commodity Index	2.4	10.8	8.3	-11.1	-9.9	-6.6
DJ Equity All REIT Total Return Index	-0.6	3.7	5.8	11.4	12.1	4.3

S&P 500, Dow Jones Global ex-US, Gold, Bloomberg Commodity Index returns exclude reinvested dividends (gold does not pay a dividend) and the three-, five-, and 10-year returns are annualized; the DJ Equity All REIT Total Return Index does include reinvested dividends and the three-, five-, and 10-year returns are annualized; and the 10-year Treasury Note is simply the yield at the close of the day on each of the historical time periods.

Sources: Yahoo! Finance, Barron's, djindexes.com, London Bullion Market Association.

Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly. N/A means not applicable.

**GROWTH, GROWTH, WHERE'S THE GROWTH?** It's that time of the year again: The time when pundits and analysts assess the present and forecast the future. Here are a few predictions from *The World in 2017*, which is published by *The Economist*:

- **Forecasts suggest the United States will not be among the fastest growing economies in the world during 2017.** The top ten countries for economic growth are expected to be: 1) Yemen, 2) Myanmar, 3) Côte d'Ivoire, 4) Mongolia, 5) Laos, 6) Ghana, 6) India, 8) Cambodia, 9) Bhutan, and 10) Djibouti.
- **One country's cinema box office gross may surpass that of the United States.** Fifteen cinema screens are being added every day in China. During 2017, the box office revenue in the country is estimated to be \$10.3 billion, higher than that of the United States.
- **Automobile companies are revving their engines.** Did you know there are just 21 cars per 1,000 people in India? In China, the ratio is about 120 per 1,000. That means there is a lot of room for growth – or alternative forms of transportation.
- **Artificial intelligence (AI) may create new ethical dilemmas.** “Look at ‘medtech.’ Fans claim AI will remake health care, using algorithms to do the grunt work of diagnostics. Yet, could a virtual doctor explain its thinking so patients can make informed decisions?”
- **The sharing economy grows to encompass jets and yachts.** Apparently, a bunch of Asian millionaires are interested in private aircraft. Some in the tourism industry are hoping they'll be willing to share.

We hope 2017 will be filled with pleasing discoveries, stimulating events, and thrilling innovation.

## **Weekly Focus – Think About It**

“Happiness is having a large, loving, caring, close-knit family in another city.”

*--George Burns, American comedian*

Best regards,

## **FIDES Wealth Strategies Group**

P.S. Please feel free to forward this commentary to family, friends, or colleagues. If you would like us to add them to the list, please reply to this e-mail with their e-mail address and we will ask for their permission to be added.

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\* Government bonds and Treasury Bills are guaranteed by the U.S. government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value. However, the value of fund shares is not guaranteed and will fluctuate.

\* Corporate bonds are considered higher risk than government bonds but normally offer a higher yield and are subject to market, interest rate and credit risk as well as additional risks based on the quality of issuer coupon rate, price, yield, maturity, and redemption features.

- \* The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general. You cannot invest directly in this index.
- \* All indices referenced are unmanaged. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment.
- \* The Dow Jones Global ex-U.S. Index covers approximately 95% of the market capitalization of the 45 developed and emerging countries included in the Index.
- \* 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.
- \* Gold represents the afternoon gold price as reported by the London Bullion Market Association. The gold price is set twice daily by the London Gold Fixing Company at 10:30 and 15:00 and is expressed in U.S. dollars per fine troy ounce.
- \* The Bloomberg Commodity Index is designed to be a highly liquid and diversified benchmark for the commodity futures market. The Index is composed of futures contracts on 19 physical commodities and was launched on July 14, 1998.
- \* The DJ Equity All REIT Total Return Index measures the total return performance of the equity subcategory of the Real Estate Investment Trust (REIT) industry as calculated by Dow Jones.
- \* Yahoo! Finance is the source for any reference to the performance of an index between two specific periods.
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