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June 2018

Market Update

(all values as of
05.31.2018)

Stock Indices:

Dow Jones	24,415
S&P 500	2,705
Nasdaq	7,442

Bond Sector Yields:

2 Yr Treasury	2.40%
10 Yr Treasury	2.83%
10 Yr Municipal	2.43%
High Yield	6.31%

YTD Market Returns:

Dow Jones	-1.23%
S&P 500	1.18%
Nasdaq	7.80%
MSCI-EAFE	-3.15%
MSCI-Europe	-4.42%
MSCI-Pacific	-0.98%
MSCI-Emg Mkt	-3.26%

US Agg Bond	-1.50%
US Corp Bond	-2.70%
US Gov't Bond	-1.71%

Commodity Prices:

Gold	1,298
Silver	16.44
Oil (WTI)	67.15

Currencies:

Dollar / Euro	1.16
Dollar / Pound	1.32
Yen / Dollar	108.78
Dollar / Canadian	0.77

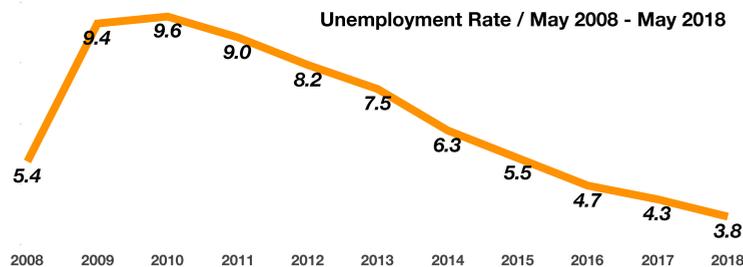
Macro Overview

Renewed fears of tariff influenced trade disputes and uncertainty with the euro was buffered by an unemployment rate decline to 3.8% and a rising dollar driven by optimism surrounding the U.S. economy.

Eurozone turmoil drove volatility as international and domestic markets reacted to Italy casting votes in an upcoming election that may entail a referendum to exit the eurozone. Should such a vote occur, it would be similar to Britain's vote to exit the eurozone in 2016, also known as Brexit. Italy is the third largest member of the eurozone in terms of population and economic status, making an exit from the eurozone an instrumental blow to the financial and political stability of the region.

The increased yield on the 10-year Treasury bond is heightening pressure on the credit markets, since the yield serves as a barometer for numerous lending rates including mortgages, auto loans, consumer and business loans. The U.S. Treasury plans on borrowing more money by selling additional U.S. government bonds over the next few months, which is expected to inflate yields on government bonds across all maturities.

Mortgage rates hit a seven-year high in May with the average rate on a conforming 30-year fixed mortgage jumping to 4.66%, according to Freddie Mac. Homeowners are becoming increasingly reluctant to sell, adding to the supply shortage. As interest rates have risen, so have mortgage rates, leading to higher mortgage payments, if one were to sell and move.



U.S. companies flush with cash are buying back their stock, increasing dividend payouts, and paying down debt, which is perceived as fundamentally sound for the equity

markets. Rising rates are discouraging companies from issuing new debt, yet have simultaneously increased stock buybacks by over 34% from last year.

The unemployment rate fell to 3.8% in May, the lowest since April 2000 and once before that in 1969. Job gains were broad with the retail, healthcare, and construction sectors seeing the most hires. Some economists believe that the unemployment rate can fall even further as employers ramp up hiring, with limited skilled workers available in the workforce.

The House & Senate voted on extinguishing some regulations under the Dodd-Frank legislation signed into law in 2010. The alleviation of certain rules will allow smaller regional banks to broaden their loan base by loaning more ambitiously, reduce data collection requirements, and minimize the threat of lawsuits for defaulted mortgage loans. The United States currently has more than 5000 banks across the nation, yet only 13 of the largest banks account for roughly 50% of all assets and deposits. Sources: Freddie Mac, Fed., Labor Dept., EuroStat

Volatility Eases – Domestic Equity Overview

Market volatility eased in May as earnings solidified fundamentals and fostered some confidence among equity investors. Small capitalization stocks reached new highs in May, outpacing their larger cap peers. Such an occurrence is a validation to equity analysts that broad-based fundamentals are in place.

Several analysts believe that the recent tax cut laws that became effective in January 2018 have been helping to accelerate the realization on some equity capital gains, essentially driving tax revenue growth.

A healthy decline in junk bond defaults is considered beneficial for equities as it implies strong underlying fundamentals for U.S. companies, as noted by Moody’s. The credit rating agency projects that the default rate for high yield bonds will fall to 1.5% by April 2019, down from 3.7% in April 2018. With oil sector bonds making up a large portion of the current high yield market, rising oil prices have solidified oil industry balance sheets and improved cash flow, all beneficial for equity valuations.

Sources: Reuters, Bloomberg, Moody’s

What A Strong Dollar Means – Currency Overview

The U.S. dollar has risen over 4% since mid-April, driven by increasing interest rates and growing confidence in the U.S. economy. An expanding economy tends to generate inflationary pressures that lead to higher interest rates.

A stronger dollar can also be a hindrance for certain U.S. companies that have a large portion of their sales overseas. Should the dollar continue on its elevated trend, economists and analysts believe that the run up in the dollar will translate into lower earnings for a number of U.S. companies. Foreign investors tend to flock to the U.S. dollar as rates increase, seeking higher returns on idle cash from all over the world. A



challenge for U.S. multinationals when the dollar rises is the price of U.S. exports becoming more expensive worldwide. As the dollar increases in value versus other currencies, U.S. exported goods become less affordable in the international markets.

Conversely, the strengthening dollar has also made it more affordable for imported goods, which become less expensive as the dollar elevates. The single most significant benefit to Americans from a rising dollar has historically led to a drop in oil prices, which the U.S. still imports about a third of the oil consumed. But over the past few weeks, oil and gasoline prices have been rising, a diversion from previous dollar rallies.

Since nearly all commodities worldwide are traded in the U.S. dollar, a stronger dollar tends to lower the price of commodities internationally. Consequently, lower commodity prices tend to be negative for countries whose economies are dependent on commodity exports.

Sources: <https://fred.stlouisfed.org/>, Bloomberg, Commerce Department

Rates Trend Higher – Fixed Income Overview

Rates headed higher in May driven by inflationary pressures, positive economic data, and the expectation of another Fed rate hike in June. Interest rates from mortgages and automobiles, to consumer and business loans increased, driving up the cost to borrow on a number of goods and services.

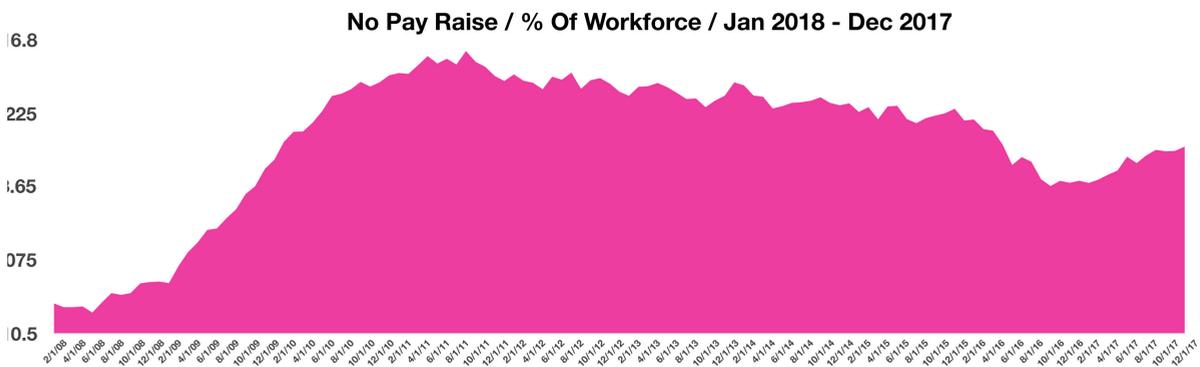
The Fed remains committed to further rate hikes as noted from recent Fed minutes. The gradual trajectory of rising short-term rates will also influence longer term 10 & 30-year Treasury yields to rise in sync.

The interest rate “spike” that occurred over the past few weeks propelled the 10-year Treasury yield from 2.74% at the end of March to 3.11% on May 17th. Usually influenced by spontaneous events, spikes can be temporary and may last from a few hours to a few weeks. The 10-year bond yield settled back to 2.83% at the end of May.

There is a disconnect between the 10-year Treasury yield and the 3.8% unemployment rate, whereas last time unemployment was at 3.8% in 2000, the 10-year Treasury yield was at 6.57%. Sources: U.S. Treasury, Bloomberg, Federal Reserve

Not Many Raises Even With Unemployment At 3.8% – Labor Market Update

Historically, as unemployment rises, wages tend to rise due to a tight labor market where companies compete for a limited workforce. Recently released research from the Federal Reserve Bank of San Francisco shows that an abnormally high share of employees in the same job capacity for the past 12 months did not receive a pay raise. This unusual dynamic is referred by economists as “wage rigidity”. Fed data shows that over 14% of American workers are not getting pay raises, even though the unemployment rate reached 3.8%, an 18-year low.



Another finding over the years has also revealed that future wage growth in the U.S. tends to rise more slowly than usual when a high number of employees are not receiving pay raises.

The most recent data available shows that U.S. wages increased at a 2.6% annual rate as of the end of April. Historically, when unemployment is at such low levels as it currently is, wages have risen 3.5% to 4.5% per year.

Past data shows that increasing unemployment leads to inflation as companies pay more, resulting in wage inflation. Yet, inflation has risen 2.7% over the past year, ahead of wages, which have only grown by 2.5% during the same period. Source: Federal Reserve Bank of San Francisco

Could Italy Be The Next Greece – International Update

Italians are expected to cast votes in an upcoming election that may entail a referendum to exit the eurozone. Should such a vote occur, it would be similar to Britain’s vote to exit the eurozone in 2016, also known as Brexit. Italy is the third largest member of the eurozone in terms of population and economic status, making an exit from the eurozone an instrumental blow to the financial and political stability of the region.

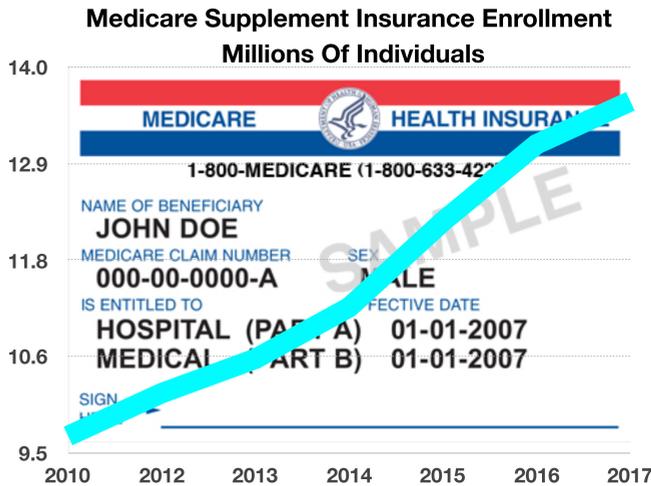


The recent news from Italy is reminiscent of the Greek Credit Crisis that lingered on for nearly 6 years until a resolution with the IMF was agreed upon in 2016. Nearly six years ago, the eurozone was on the brink of a breakdown when Greece and other smaller economies of the region were in a serious debt crisis. Moody’s rating agency downgraded Italy’s credit rating two notches above junk status, making it more expensive for the country to borrow.

A rising dollar has hindered emerging markets as their dollar-denominated debt has become more costly to repay. The Institute of International Finance estimates that emerging markets held a record \$6.3 trillion in dollar-denominated debt at the end of 2017. Rising U.S. interest rates can also entice international investors to extract assets from emerging countries and migrate them to U.S. assets such as Treasuries. Sources: Eurostat, IMF, Institute of International Finance

Medicare Supplemental Insurance Purchase On The Rise – Healthcare Overview

Supplemental insurance coverage that pays for medical expenses not covered by Medicare is on the rise.



Over 500,000 new supplemental policies were purchased in 2017, with over 13.6 million retirees carrying supplemental insurance coverage as of December 2017. Over the past ten years, the number of retirees with supplemental coverage increased 40%, driven by demographics and cuts in Medicare covered services.

Retirees can optionally enroll in private individual insurance policies that supplement original Medicare. These plans are standardized and identified by plan letter (Plans A-N). Also called Medicare Supplemental Insurance,

retirees have the ability to choose their doctors, specialists, and care facilities. Sources: Congressional Research Service, American Association for Medicare Supplement Insurance

*Market Returns: Index data sources; MSCI, DJ-UBSCI, WTI, IDC, S&P. The information provided is believed to be reliable, but its accuracy or completeness is not warranted. This material is not intended as an offer or solicitation for the purchase or sale of any stock, bond, mutual fund, or any other financial instrument. The views and strategies discussed herein may not be appropriate and/or suitable for all investors. This material is meant solely for informational purposes, and is not intended to suffice as any type of accounting, legal, tax, or estate planning advice. Any and all forecasts mentioned are for illustrative purposes only and should not be interpreted as investment recommendations. Quint Wealth Management, Inc. (Quint Investments & Insurance) is a Registered Investment Adviser in New York. We are allowed to do business in New York and other states where we are registered, exempted, or excluded from registration. Investments involve risk and unless otherwise stated, are not guaranteed. Be sure to first consult with a qualified financial adviser and/or tax professional before implementing any strategy discussed herein. Insurance products and services are offered and sold through Quint Risk Management, Inc. and individually licensed and appointed insurance agents.