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Wayne R. Quint, CFP®
845.345.3628
10 Raymond Avenue
Poughkeepsie, NY 12603
www.quintii.com
info@quintii.com



February 2018

Market Update

(all values as of
01.31.2018)

Stock Indices:

Dow Jones	26,149
S&P 500	2,823
Nasdaq	7,411

Bond Sector Yields:

2 Yr Treasury	2.148%
10 Yr Treasury	2.72%
10 Yr Municipal	2.38%
High Yield	5.85%

YTD Market Returns:

Dow Jones	5.79%
S&P 500	5.62%
Nasdaq	7.36%
MSCI-EAFE	4.99%
MSCI-Europe	5.36%
MSCI-Pacific	4.33%
MSCI-Emg Mkt	8.30%

US Agg Bond	-1.23%
US Corp Bond	-1.12%
US Gov't Bond	-1.25%

Commodity Prices:

Gold	1,344
Silver	17.32
Oil (WTI)	64.77

Currencies:

Dollar / Euro	1.23
Dollar / Pound	1.40
Yen / Dollar	108.75
Dollar / Canadian	0.81

Macro Overview

Rising interest rates weighed on equity momentum as the expectation of increased borrowing costs and inflation accelerated market volatility. Markets retreated from gains established earlier in the year as higher global yields precipitated a pullback in domestic and international equities.

A synchronized global recovery has become the catalyst for increases in commodity prices, inflation and economic growth. Recent oil demand increases by emerging countries have stoked inflation pressures internationally, while news of higher wages in the U.S. fueled further acceleration of inflation fears, driving down bond prices and elevating bond yields. The rise in rates is affecting a broad spectrum of loans from auto and personal to mortgages. The ascent of interest rates in January is expected to continue throughout the year as the Fed slowly starts to unwind its expansive stimulus efforts.

The 10-year Treasury bond yield recorded its steepest monthly increase since November 2016 with short-term and long-term Treasury yields remaining in the tightest range in a half-century. Low rates have allowed companies to borrow cheaply and have forced investors to seek out riskier assets to meet return objectives.

The recent tax changes now allow U.S. corporations to repatriate cash funds overseas and pay a 15.5% tax rather than 35%. An estimated \$300 billion is expected to slowly start returning to the United States over the next few months, leading to stock buybacks, hiring, capital investment, and dividend payout increases.

World financial, political and intellectual leaders gathered in Davos, Switzerland, for the annual World Economic Forum. President Trump was the first U.S. president to attend since Bill Clinton in 2000. U.S. representatives discussed plans of establishing revised business and trade arrangements with several nations in attendance.



The Federal Reserve Bank of Atlanta revised its economic growth forecast to 5.4% for the first quarter of 2018, an optimistic revision following improving economic data. The forecast is generated by a model, known as the GDPNow model, which takes various factors into account. The model is also forecasting an increase in consumer spending from 3.1% to 4.0% and an increase in real private fixed investment growth from 5.2% to 9.2%, both significant components for sustainable economic growth.

Sources: Atlanta Fed Bank, Treasury Dept., www.weforum.org/

Volatility Returns To The Market – Equity Overview

Optimism and positive sentiment surrounding earnings and growth estimates fueled equities in January, lifting equity indices to new highs. The S&P 500 achieved its 10th consecutive monthly gain in January, the longest 11-month winning streak for the index since January 1959.

Stocks receded towards the end of January as rising interest rates and the onset of inflationary tensions elevated market volatility. Bonds pressured U.S. stocks as the two-year Treasury yield reached 2.12 percent, compared with the 1.76 percent dividend yield on the S&P 500. The 2-year Treasury yield surpassed the S&P 500 Index dividend yield for the first time in nearly ten years.

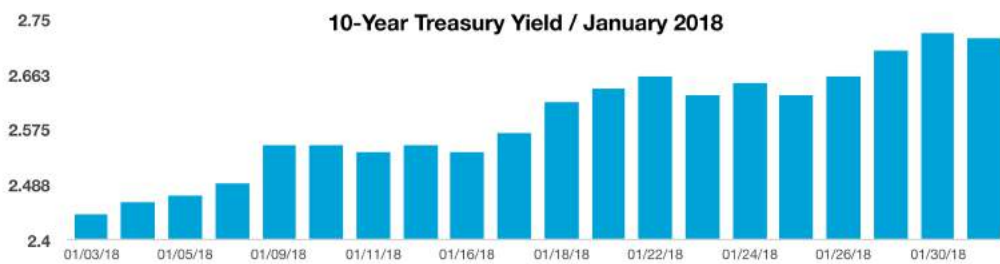
Even at the levels that the major indices have risen to, stocks are still fairly valued historically per the S&P 500 Index earnings estimates at 18 times for 2018. January 2018 was the best January for the stock market since 1997. (Sources: S&P, US Treasury, Bloomberg)

Yields Head Higher – Fixed Income Update

Rising global bond yields precipitated a sell off in stocks as the cost to borrow for companies and governments rose. A host of factors are contributing to rates rising including: the ECB, Japan, and Federal Reserve all ending years of stimulus efforts; rising wages; and global economic growth. International bond yields rose in tandem with rising U.S. treasury yields, elevating the 10-year German bund out of negative yields.

As with companies, municipalities may be hit with higher interest rates resulting in saddling state and local government budgets producing increased borrowing costs. Further yet, rising rates may also prevent certain municipalities from taking steps to shore up their underfunded pension plans.

In its January meeting, the Fed did nothing to discourage expectations that it will continue to tighten monetary policy when it meets again in March. The Fed has officially begun to unwind its post financial crisis stimulus process, which entails raising short-term rates and reducing its \$4.4 trillion balance sheet.



The Fed is now on track to raise short-term rates three times this year, since it has met its dual

mandate of maximum employment with stable inflation. Any additional growth resulting from the recent tax cuts may entice the Fed to raise rates a fourth time this year should it be warranted.

The Treasury Department plans to increase the size of its bond and note auctions by \$42 billion in order to meet funding requirements for the government. It also stated that it would only be able to fund government operations through the end of February unless congress raises the debt ceiling.

(Sources: Fed, US Treasury)

New IRS Tax Withholding Tables – Tax Planning

Because of the new tax law provisions this past month, 90% of wage earners will see an increase in their paychecks due to revised withholding rates, according to the administration. The effect of the revisions will be noticeable in early February, or as soon as employers adopt the new withholding tables, which are required to be in place no later than February 15th.

Withholding tables are used by payroll services and employers to determine how much tax to withhold on employee checks. The new tables reflect the increase in the standard deduction, repeal of personal exemptions and tax rate modifications.

According to the IRS, the new tables should produce more precise tax withholding, thus reducing overpayments that result in excessive tax refunds. The idea is to have just the right amount withheld, not too much and not too little. The IRS is also suggesting that form W-4 be revised to account for changes with itemized deductions, child tax credit, dependent credit, and repeal of dependent exemptions.

The IRS is also updating its withholding calculator on IRS.gov to reflect the new tables <https://www.irs.gov/individuals/irs-withholding-calculator>. (Source: IRS)

Mortgage Rates Starting To Rise – Mortgage Market Update

Optimism about economic growth has led to higher inflationary expectations, which eventually translate into higher interest rates. Over the past few months, the yield on the 10-year U.S. Treasury has increased from a historical low of 1.35% in 2016 to 2.72% at the end of January. As a gauge for mortgage rates nationally, the increase in the 10-year Treasury has also led to an overall increase in mortgage rates. According to data made available by Freddie Mac, the average rate on a 30-year fixed mortgage loan increased to 4.15% at the end of January. The concern economists have is that as mortgage rates continue to increase, home sales and affordability may begin to falter.



Thirty-year mortgage rates have surged to the highest levels in nearly a year, increasing borrowing costs at a time when the housing market is strengthening and prices have been rising. The 4.15% rate at the end of January was the highest rate since March 2017 and above 4 percent for the first time since May 2017. The average 15-year mortgage rate climbed to 3.62 percent from 3.39 percent.

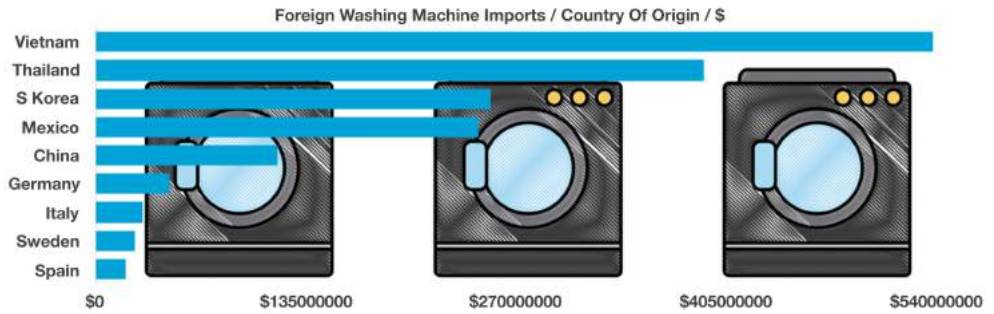
Even with the recent rise in mortgage rates, rates are still low on a historical basis. As of this past month, the average mortgage rate since 1971 has been 8.16%. Over the past 46 years, mortgage rates have transitioned from the 5% range in the early 70s to over 14% in the late 70s and early 80s, with the 30-year conforming rate hitting a record high of 16.63% in 1981. (Sources: Freddie Mac, Bloomberg, U.S. Treasury)

Washing Machines & Solar Panels Subject To New Import Tariffs – Trade Policy

Inexpensive imports inundating the U.S. consumer market have become a target for the Trump administration. The Commerce Department has been given the task of identifying imported products where U.S. producers and manufacturers may experience unfair trade characteristics. The low cost of labor overseas has made it nearly impossible for U.S. manufacturers to compete with, especially in labor intensive industries.

Various U.S. manufacturers have been complaining about foreign manufacturers dumping their products in the U.S. in order to gain

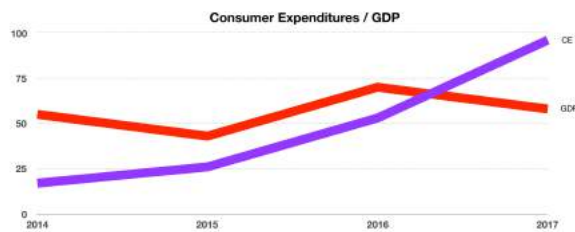
market share. Dumping is a practice when manufacturers export a product to another country at a price below their costs or below market prices. The U.S. Dept of Commerce monitors such activities and has filed various complaints with the World Trade Organization (WTO) over the practices. The WTO did recognize violations and identified several manufacturers using unfair trade practices.



This past month the Department of Commerce imposed higher tariffs on the imports of washing machines and solar panels manufactured overseas. The bulk of washing machines imported into the United States are from Asian countries including Vietnam, Thailand, and South Korea. The tariff on washing machines will start at 20 percent on the first 1.2 million units, then increase to 50% on every other unit after that. It is expected that the higher cost brought about by the tariffs will be passed along to American consumers by the foreign manufacturers. Solar panels imported into the U.S. will be imposed a 30 percent tariff the first year, dropping to a 15 percent tariff in the fourth. (Sources: Dept. of Commerce, WTO)

Consumer Spending Growing Faster Than GDP – Consumer Economics

The past four years have seen consumer spending exceeding GDP. Various factors drive consumer spending, including sentiment, optimism, wages, and demographics. GDP grew at a 2.6% annual rate in the fourth quarter, while consumer spending grew at a 3.8% annual rate. Historically, periods where consumer spending has grown faster than economic growth, as measured by GDP, inflation has evolved. Consumer expenditures include the purchase of furniture, appliances, food, autos, and recreational activities. Recent data from the Department of Labor show that consumers have more disposable income to spend. Economists believe that since consumer expenditures represent nearly 70% of GDP, it's only a matter of time before GDP catches up. (Sources: Dept of Commerce, BEA)



*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.