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Weekly Market Commentary July 10, 2017

The Markets

Things you may want to know...

Last Friday, *Financial Times* (FT) published, 'Five markets charts that matter for investors.' Among the issues addressed in the charts were:

- **The bond market bear watch.** The yield on 10-year German Bunds (Germany's government bonds) reached an 18-month high of 0.58 percent recently. Yields rose after the European Central Bank's Mario Draghi indicated its stimulus efforts would end at some point.

When bond yields rise, bond values fall, and that makes rising interest rates quite a significant event for anyone who holds lower yielding bonds. In the United States, 10-year U.S. Treasuries moved to a seven-week high last week and then dipped lower following the release of the Federal Open Market Committee meeting minutes, reported *CNBC.com*.

- **Financial companies gaining favor.** During the past month, U.S. stock markets have seen a sector rotation. *FT* reported:

"...S&P financials have gained some 6 percent, with tech sliding almost 4 percent. That still leaves financials lagging behind the S&P 500 for the year and well behind the roughly 17 percent gain for tech. A similar story has unfolded in Europe between banks and tech."

Investors' appetite for financial companies may reflect the belief higher interest rates are ahead. Banks and other financial firms generally benefit when interest rates rise. *Investor's Business Daily* reported:

“Several Wall Street giants have warned of weak trading revenue in Q2, continuing the lackluster trend in 2017...Still, bank stocks large and small have been leading in recent weeks, helped by higher bond yields and massive buyback and dividend plans.”

Last week, the unemployment rate in the United States rose from 4.3 to 4.4 percent. It was good news according to an expert cited by *Barron's*, “...the rise in labor force participation indicates slack remains in the labor market.” That may be the reason wages showed little improvement.

Data as of 7/7/17	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	0.1%	8.3%	15.6%	7.0%	12.4%	4.7%
Dow Jones Global ex-U.S.	-0.6	12.0	18.2	-1.4	5.3	-1.4
10-year Treasury Note (Yield Only)	2.4	NA	1.4	2.6	1.5	5.2
Gold (per ounce)	-2.1	4.9	-10.4	-2.5	-5.2	6.3
Bloomberg Commodity Index	-1.0	-6.5	-4.4	-14.9	-10.1	-7.2
DJ Equity All REIT Total Return Index	-1.3	3.6	-0.7	8.5	9.4	5.7

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.

IT DOESN'T APPEAR TO BE COMMON KNOWLEDGE BUT there may be an affordable car crisis in the United States. The latest *Bankrate.com* Car Affordability Study found:

“...typical households in most of America's larger cities don't earn enough to afford the average new vehicle, under a common budgeting rule for buyers... The '20/4/10' rule says you should aim to put down at least 20 percent of a vehicle's purchase price, take out a car loan for no longer than four years, and devote no more than 10 percent of your annual income to car payments, interest, and insurance. If you can't stay within those lines, you can't afford the car.”

The only major city where a new car remains affordable is Washington, D.C.!

For some, the obvious solution is choosing a less expensive model. For others, the answer is buying a used vehicle. For the latter group, here's some bad news: even an average-priced used car – nationally, the average price is about \$19,200 – is unaffordable for households in eight of the 25 largest cities.

Leasing is also an option; one that may have helped create an oversupply of used cars. In July, *Automotive News* reported:

“...millions [of] cars that were leased two or three years ago, many of them used compact and mid-sized cars with low mileage, are heading toward auction lots and used car dealerships. That surge in supply threatens to depress prices for new and used vehicles, raising the risk of losses for automakers and finance companies on lease deals. It also undercuts the value of cars customers want to trade in for a new vehicle.”

The rising popularity of ride-sharing and car-sharing, and the introduction of self-driving vehicles, may also depress prices. In fact, some automakers have introduced their own ride-sharing services.

Weekly Focus – Think About It

“A man is rich in proportion to the number of things he can afford to let alone.”

--Henry David Thoreau, American philosopher and naturalist

Best regards,

Hill Financial 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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- * The Dow Jones Industrial Average is a price-weighted index of 30 actively traded blue-chip stocks.
- * The NASDAQ Composite Index is an unmanaged, market-weighted index of all over-the-counter common stocks traded on the National Association of Securities Dealers Automated Quotation System.
- * Yahoo! Finance is the source for any reference to the performance of an index between two specific periods.
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