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## Weekly Market Commentary August 14, 2017

### The Markets

North Korea may be a little country, but it can churn up big trouble.

The possibility that verbal hostilities between the United States and North Korea could trigger geopolitical conflict had investors on the run last week. In the United States, the Standard & Poor's 500 Index fell by 1.4 percent, the Dow Jones Industrial Average lost 1.1 percent, and the NASDAQ Composite finished 1.5 percent lower.

*Financial Times* explained:

“The sell-off came as U.S. President Donald Trump escalated the war of words against the North Korean regime’s accelerated [program] of nuclear testing. Mr. Trump tweeted on Friday, “military solutions are now fully in place, locked and loaded, should North Korea act unwisely.”

While major U.S. indices headed south, the CBOE Volatility Index (VIX) – also known as Wall Street’s fear gauge – headed north. The VIX, which has been flirting with historic lows for much of the year, rose 44 percent in a single day, reported *CNBC*.

Stock markets in Europe and Asia were also affected by the saber rattling. National indices across Europe suffered weekly losses of 2.2 percent (Sweden) to 3.5 percent (Spain), according to *Barron’s*. In the Asia-Pacific region, India’s Sensex 30 lost 3.4 percent and South Korea’s Kospi was down 3.2 percent for the week.

Geopolitical concerns overshadowed some important economic news in the United States. Inflation, as measured by the U.S. Consumer Price Index, rose very little in July. In fact, consumer prices have been soft for five straight months, reported

*MarketWatch*. Persistently low inflation could affect the Federal Reserve’s plan to raise interest rates this year. The Fed’s goal is 2 percent inflation.

Data as of 8/11/17	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	-1.4%	9.0%	11.7%	8.0%	11.7%	5.3%
Dow Jones Global ex-U.S.	-1.6	15.1	12.7	0.5	4.9	-0.5
10-year Treasury Note (Yield Only)	2.2	NA	1.6	2.4	1.7	4.8
Gold (per ounce)	2.3	11.0	-5.1	-0.5	-4.5	6.8
Bloomberg Commodity Index	0.5	-4.4	-0.3	-13.1	-10.0	-6.7
DJ Equity All REIT Total Return Index	-2.1	3.8	-2.0	8.2	9.6	8.7

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.

**ARE ELECTRIC ENGINES THE TORTOISE COMPETING WITH THE COMBUSTION ENGINE’S HARE?** In the late 1800s, the Paris-Rouen race for horseless carriages included 102 vehicles fueled by steam, petrol, electricity, compressed air, and hydraulics, reports *The Economist*. Not a single electric engine made it to the starting blocks. (The internal combustion engine won.)

Oh, how times have changed!

The *International Energy Agency’s Global EV Outlook 2017* reported:

“New registrations of electric cars hit a new record in 2016, with over 750 thousand sales worldwide. With a 29 percent market share, Norway has incontestably achieved the most successful deployment of electric cars in terms of market share, globally. It is followed by the Netherlands, with a 6.4 percent electric car market share, and Sweden with 3.4 percent. The People’s Republic of China (hereafter, “China”), France, and the United Kingdom all have electric car market shares close to 1.5 percent. In 2016, China was by far the largest electric car market, accounting for more than 40 percent of the electric cars sold in the world and more than double the amount sold in the United States.”

*Financial Times* reported the *UBS* analysis suggests the market may be at an inflection point as the total cost of ownership for electric vehicles may become comparable to that of combustion engine vehicles as early as 2018 in Europe, 2023 in China, and 2025 in the United States.

Even though their popularity is growing, electric cars comprise a small portion of the market today. *UBS* expects electric cars to account for 14 percent of the global market, and more than one-third of the European auto market, by 2025.

## Weekly Focus – Think About It

“Though most of them sit idle, America’s car and [truck] engines can produce ten times as much energy as its power stations. The internal combustion engine is the mightiest motor in history.”

*--The Economist, August 12, 2017*

Best regards,

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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 Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general.
- \* 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.
- \* Commentary prepared by PEAK.
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