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Markets Slide as Bond Yields Rise

WEEKLY UPDATE - FEBRUARY 5, 2018

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After 4 straight weeks of gains, the markets have slipped. As of Friday, the S&P 500 lost 3.85%, the Dow dropped 4.12%, and the NASDAQ decreased by 3.53%.^[1] International stocks in the MSCI EAFE also took a 2.78% hit.^[2] Domestically, the losses spanned sectors and asset classes. For the S&P 500, all 11 of the index's industries lost ground last week. This decline came after the S&P 500 had its best January performance in over 20 years.^[3]

So, what happened?

Looking at the markets' sizable losses, you might expect that discouraging economic data came out last week - or some geopolitical drama spooked investors. On the contrary, the drops came in response to news that seems positive on the surface: Job and wage growth are picking up.^[4]

Reviewing the Jobs Report

On Friday, the Bureau of Labor Statistics reported that we added 200,000 new jobs in January and beat expectations. Average hourly wages also increased, bringing 2.9% growth in the past 12 months - the largest rise since 2008-2009.^[5]

Analyzing the Reaction

When labor data came out, bond yields jumped and 10-year Treasury yields hit their highest level in 4 years.^[6] Stocks sank in reaction to these interest rate gains.^[7]

Concerns about inflation are fueling this reaction. As wages grow, companies may increase their prices to support their rising labor costs - contributing to an inflationary cycle.^[8] With inflation can come rising interest rates.^[9]

As a result of this news, some investors became concerned that the Federal Reserve may increase interest rates this year more than initially expected.

Putting the Performance in Perspective

After the unusually calm market environment we experienced in 2017, last week's declines may feel unsettling. However, price fluctuations are normal and the economy continues to be strong.^[10]

In addition, as domestic indexes reach high levels, viewing their declines in terms of points, rather than percentages, can cause unnecessary concern. You may have read reports that the Dow dropped 665.75 points on Friday, contributing to its 6th biggest points decline in history.^[11] But even after losing nearly 1100 points in 5 days, the Dow was only down 4.12% for the week and remained up 3.24% for the year.^[12]

Of course, every economic environment has risks, and no market can go up forever. We are aware of the risks that increasing inflation and interest rates may bring, and we are here to help you navigate what the future holds.


ECONOMIC CALENDAR

Monday: ISM Non-Mfg Index

Tuesday: International Trade

Wednesday: EIA Petroleum Status Report

Thursday: Jobless Claims

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DATA AS OF 2/2/2018	1 WEEK	SINCE 1/1/18	1 YEAR	5 YEAR	10 YEAR
STANDARD & POOR'S 500	-3.85%	3.31%	21.10%	12.79%	7.07%
DOW	-4.12%	3.24%	28.34%	12.74%	7.19%
NASDAQ	-3.53%	4.89%	28.47%	17.90%	11.61%
INTERNATIONAL	-2.78%	3.56%	22.31%	4.58%	0.23%
DATA AS OF 2/2/2018	1 MONTH	6 MONTHS	1 YEAR	5 YEAR	10 YEAR
TREASURY YIELDS (CMT)	1.40%	1.65%	1.88%	2.58%	2.84%

Notes: All index returns (except S&P 500) exclude reinvested dividends, and the 5-year and 10-year returns are annualized. The total returns for the S&P 500 assume reinvestment of dividends on the last day of the month. This may account for differences between the index returns published on Morningstar.com and the index returns published elsewhere. International performance is represented by the MSCI EAFE Index. Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly.

QUOTE OF THE WEEK

"Fortune sides with him who dares."

- Virgil

RECIPE OF THE WEEK

Fiesta Nacho Casserole



Serves 4

Ingredients:

- 3 cups rotisserie chicken breast meat
- 2 large tomatoes
- 1 cup carrots
- 1 cup corn kernels
- ½ cup salsa verde
- 2 cloves garlic
- 1 teaspoon chili powder
- 3 ounces baked whole-grain tortilla chips
- ½ cup crumbled feta cheese
- Cilantro leaves
- Hot pepper sauce

Directions:

1. Heat oven to 400°F.
2. Use nonstick cooking spray on 2-quart baking dish.
3. Mix chicken, tomatoes, carrots, corn, salsa verde, garlic, and chili powder in

- a large bowl.
4. Put $\frac{1}{3}$ of the chips in a baking dish.
 5. Add half of the chicken mix on top.
 6. Add half of feta.
 7. Repeat layering of chicken mix and feta.
 8. Arrange the rest of the chips on top.
 9. Bake for 20 minutes.
 10. Put cilantro on top.
 11. Serve with hot pepper sauce.

Recipe adapted from Good Housekeeping^[13]

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TAX TIPS

Department of
U.S. Individual



Taxpayers May Explore Payment Options Any Time*

History is replete with tales of citizens reluctantly and often begrudgingly performing their civic duties; civilization requires taxation.

The question for American taxpayers facing the prospects of a tax bill isn't whether they should pay it, but how.

The IRS offers taxpayers several ways to pay their bills:

1. Pay with e-file using your bank account with electronic funds withdrawal. The IRS doesn't charge for this service.
2. Use the IRS's Direct Pay. The service is free. Direct Pay sends users email reminders only to those who request them. The IRS also warns taxpayers to be alert for email schemes.
3. Taxpayers can pay over time with the IRS's online installment payment agreement. Once the agency accepts the agreement, taxpayers make monthly payments.

To learn more, go to [IRS.gov/payments](https://www.irs.gov/payments).

* This information is not intended to be a substitute for specific individualized tax advice. We suggest you discuss your specific tax issues with a qualified tax advisor.

Tip courtesy of IRS.gov^[14]

GOLF TIP



How Can Timing Improve Your Golf Game?

Accuracy and precision in your tee shot lie in the microseconds, the speed at which you swing your club. Too fast and the ball is going on a wild adventure to nowhere. Too slow and you might as well go bowling.

How do you find the happy medium? How do you develop that perfect timing to put your shot on the straight and narrow?

Here are 4 tips from the pros:

1. **Slow it down quickly:** Strangely, avoid both ends of the spectrum, too fast or too slow. Shoot for that middle ground.
2. **Don't think about it:** It may seem counterintuitive, but try not to think about speed. Put it out of your mind. Develop a kind of second nature golf swing from muscle memory.
3. **Practice flooring it:** Step up and do a few practice swings with your driver at full throttle. Then let off the accelerator - about half speed - and step up to go live.
4. **Go head-on:** Find yourself a speed and a flow that allow your clubface to hit the ball squarely for longer and straighter shots.

Adjusting your swing may be all it takes to up your game.

Tip adapted from Golf Digest^[15]



Understanding Kidney Stones

Talk about kidney stones with someone who has never suffered from them; they may shrug and express sympathy for sufferers. Talk about kidney stones with those who have experienced the excruciating pain of this condition; they immediately understand the pain and express a deep sense of empathy.

More than 200,000 people per year suffer from nephrolithiasis, a condition involving hard deposits of mineral and acid salts that stick together in concentrated urine.

Kidney stones typically pass on their own after a few days. Treatment options include:

- **Use painkillers.** Nonprescription pain medications, such as nonsteroidal anti-inflammatory drugs, provide some relief.
- **Drink, drink, drink.** Passing a stone requires drinking lots of water and other fluids.

Your doctor may prescribe medicine to help you pass the stone or administer other medical procedures if the pain is too intense, the stone is too large, or you suffer an infection.

Tip adapted from WebMD^[16]



Go Green During the Winter

Going green when the weather outside is frightful - and white - isn't easy. After all, who wants to conserve energy when the digital thermometer displays numbers in the negatives?

A few simple steps can put your life on the toasty side of town and help you become more conservation-minded.

Here are 4 tips to keep you warm and green:

1. **Go with LEDs:** Energy-efficient LED bulbs provide energy-saving opportunities, which will keep your home bright.
2. **Insulate around your doors and windows:** Windy winters send cold drafts around edges of doors and windows, causing your home heater to work harder. Caulking, sealant, or weather stripping can help block cold air from entering.
3. **Reverse ceiling fans:** Turn the switch so the blades spin in the opposite direction for winter. Fans should pull air upward during the cold seasons. Most of the time the blades will turn clockwise for the cold season.
4. **Replace air filters:** Dirty air filters hamper airflow and your home's heater. Replace air filters at least once every three months.

Tip adapted from EWG^[17]

Share the Wealth of Knowledge!

Please share this market update with family, friends, or colleagues. If you would like us to add them to our list, simply click on the "Forward email" link below. We love being introduced!

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Investing involves risk including the potential loss of principal. No investment strategy can guarantee a profit or protect against loss in periods of declining values.

Diversification does not guarantee profit nor is it guaranteed to protect assets.

International investing involves special risks such as currency fluctuation and political instability and may not be

suitable for all investors.

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 average of 30 significant stocks traded on the New York Stock Exchange and the NASDAQ. The DJIA was invented by Charles Dow back in 1896.

The Nasdaq Composite is an index of the common stocks and similar securities listed on the NASDAQ stock market and is considered a broad indicator of the performance of stocks of technology companies and growth companies.

The MSCI EAFE Index was created by Morgan Stanley Capital International (MSCI) that serves as a benchmark of the performance in major international equity markets as represented by 21 major MSCI indices from Europe, Australia, and Southeast Asia.

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.

Opinions expressed are subject to change without notice and are not intended as investment advice or to predict future performance.

Past performance does not guarantee future results.

You cannot invest directly in an index.

Consult your financial professional before making any investment decision.

Fixed income investments are subject to various risks including changes in interest rates, credit quality, inflation risk, market valuations, prepayments, corporate events, tax ramifications and other factors.

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[1] <http://performance.morningstar.com/Performance/index-c/performance-return.action?t=SPX@ion=usa&culture=en-US>

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[17] www.discover.com/online-banking/banking-topics/4-ways-to-save-energy-by-going-green-this-winter/

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