SOUND INCOME STRATEGIES

Sound Income Strategies Newsletter, June 2018

Index	Month / Year to Date
Dow Jones	**-0.23%/+1.41%**
S&P 500	**+2.01%/+2.40%**
NASDAQ	**+5.49%/+8.30%**

10-Yr Treasury yield was 2.95% at the end of April and 2.85% at the end of May.

Source: Bloomberg

Markets:

The story of the financial markets for May was—let's all say it together now—volatility! That should come as no surprise because volatility has been the story for most of the year, and it's likely to continue to be the story for some time to come. Once again, the last few days of the month were typical of the year overall. On May 29, the markets plunged on fears over political turmoil in Italy and renewed worries over trade, with the Dow Jones Industrial Average shedding nearly 400 points. On May 30, worries eased, and the Dow gained back nearly all those losses, only to lose half of them again on May 31 with a 221-point drop. Talk about a roller coaster!

All in all, the broad market did manage to eke out a 2 percent gain for the month and finish May about 5 percent above its recent lows in February and just above the break-even line for the year-to-date.[1] That seems like a lot of nerve-wracking drama just to break even. Since February 5, the stock market volatility index, or "fear index," has experienced six sessions that saw a jump of at least 20 percent.[2]

Is it possible the volatility will diminish and the market will get back to the upward trend it started on in March of 2009, a few months after the first round of quantitative easing was launched? Well, anything's possible, but it's not likely with so many potential tipping points for a sustained market downturn in place. There are uncertainties around trade, oil prices, China and South Korea, the European Union, interest rates, inflation, the federal deficit and—especially—GDP growth, which even the Federal Reserve has forecast will be considerably lower in the next three years than the 4 percent initially promised by Donald Trump.

Meanwhile, the bond market was quite active in May, with the yield on the 10-Year Treasury rate hitting a new high for the year at 3.11 percent on May 17. But, then it finished the month at 2.85 percent, slightly lower than it was at the end of April. As previously discussed, there will most likely continue to be a strong resistance level for long-term interest rates at right around 3 percent for a variety of reasons. These temporary fluctuations can actually bode well for fixed-income investors with actively managed portfolios, as they give portfolio managers the opportunity to lock in higher interest rates on some bonds.

1. Michael Santoli, CNBC Markets Now: May 14, 2018, (2018; CNBC), Web Video, https://www.cnbc.com/video/2018/05/14/cnbc-markets-now-may-14-2018.html
2. Ryan Vlastelica, "There's been a historic amount of earthshaking stock-market volatility this year," MarketWatch, last modified on April 11, 2018, https://www.marketwatch.com/story/theres-been-a-historic-amount-of-earthshaking-stock-market-volatility-this-year-2018-03-22

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