



NEWS OF THE MONTH

Sound Income Strategies Newsletter, January 2019

December Returns

<u>Index</u>	<u>Month / Year to Date</u>	
Dow Jones	-7.8%	-3.33%
S&P 500	-8.26%	-4.23%
NASDAQ	-9.38%	-2.69%
Barclay's Agg	+1.83%	+0.01%

The 10-Year Treasury started the year at a 2.40% yield, ran up to 3.23% and closed the year at 2.68% for a loss of -0.86% on the year and a +2.67% gain in December.

Markets

The extreme volatility that rocked the stock market in October and November not only continued in December, but got worse. Just before the Christmas holiday, Wall Street was on track for posting the worst year since the height of the Financial Crisis in 2008, its worst December since the Great Depression, and its worst Christmas Eve ever.*

The Dow Jones Industrial Average fell by 653 points on the day before Christmas, while all the other major indexes suffered similar declines. The drop capped off a three-week, 16% sell-off of the S&P 500. Though the market staged an historic single-day rally the day after Christmas, most of those gains were pared again one day later, keeping with the kind of dramatic rollercoaster ride that has been typical for Wall Street all year. All the major indexes ended up finishing the year with losses.

Drivers behind all the fear and uncertainty included some new developments to go along with the many issues—such as the trade war—that have kept investors skittish all year. Those new issues included the abrupt resignation of Defense Secretary Jim Mattis in protest of Donald Trump's sudden decision to withdraw troops from Syria; a partial government shutdown; another short-term interest rate hike by the Federal Reserve; and more public criticism of the Fed by Trump.

The Fed's latest rate increase was approved despite the fact that long-term interest rates actually dropped further in December. The yield on the 10-Year Treasury rate opened the month at 2.98% and was down to 2.69% on December 31st.** The closer long- and short-term rates get, the greater the threat of a fully flattened or inverted yield curve—and with the current Fed funds rate now at 2.5% after December's rate hike, the yield curve is already perilously close to flat.

A flat yield curve preceded both of the last two major market drops, and is often referred to as the bond market's trusty recession warning gauge. In my 2019 Market Forecast, I am anticipating the continuation of a strong resistance level for long-term interest rates at around 3.25%, along with an economic slowdown and possible recession, as well as another year of losses for the stock market.

Portfolio Transactions:

When managing your portfolio at SIS, we look for one of four possible "enhancement" trades while reviewing securities and possible transactions. Income generation is our primary goal for our clients, and we consider the following four portfolio enhancements before transacting: current yield, yield to worst (minimum projected annualized total return), interest rate risk, and default risk. The intents of these transactions are categorized as follows:

- ✓ **Pay Me Now** – Enhancing current yield
- ✓ **Pay Me Later** – Enhancing yield to worst
- ✓ **Cover My Assets I.** – Managing interest rate risk
- ✓ **Cover My Assets II.** – Managing default risk

We evaluate the transactions by determining whether they meet one, two, three, or all four enhancements. A baseball analogy for this: SINGLES, DOUBLES, TRIPLES, and HOME RUNS.

(Swaps info)

***"US Stocks Remain on Track for Their Worst Year Since 2008," NPR.org, Dec. 25, 2018*

***"Yahoo Finance," Dec. 27, 2018*

Note: The above trades were recent block trades and do not reflect all trades done on an individual specific basis. Sound Income Strategies, LLC is a registered investment advisor. Information presented is for educational purposes only and does not intend to make an offer or solicitation for the sale or purchase of any specific securities, investments, or investment strategies. Investments involve risk and, unless otherwise stated, are not guaranteed. Past performance is not an indication of future results. Be sure to first consult with a qualified financial advisor or tax professional about your specific financial situation before implementing any strategy discussed herein.

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Markets stage one of worst Christmas Eves ever, closing down more than 600 points as Trump blames Fed for stock losses in a tweet – Washington Post, Dec. 24

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