OVERWHELMED BY THE RELENTLESS STREAM OF NEWS ABOUT MARKETS?

Earlier this week, a closely watched economic indicator, the difference in yield between the 10-year U.S. Treasury note and the 2-year U.S. Treasury note (2s10s), inverted. This inversion, however brief, is often viewed as evidence of investor concern over current economic conditions.

But does this yield curve inversion predict trouble ahead with absolute certainty? Of course not. Global stock and bond markets remain random and unpredictable no matter how much we try to “normalize” them with economic indicators and hindsight.

What is a yield curve, and why are stock investors so interested in its shape?

A yield curve gives a snapshot of how yields vary across bonds of similar credit quality, but different maturities, at a specific point in time. For example, the US Treasury yield curve indicates the yields of US Treasury bonds across a range of maturities. Bond yields change as markets digest news and events around the world. Supply and demand, reflected in current market prices for bonds, causes their yields to change, altering the shape of the yield curve over time.

Historically, yield curves have mostly been upwardly sloping (short-term rates lower than long-term rates). But there have also been several periods when the yield curve has either been flat or inverted. One question often posed by investors is whether inverted yield curves predict a future stock market decline? While the handful of instances of curve inversions in the US may concern investors, the small number of examples makes it difficult to determine a strong connection, and evidence from around the world suggests investors should not extrapolate from the US experience.

Putting Uncertainty in Perspective

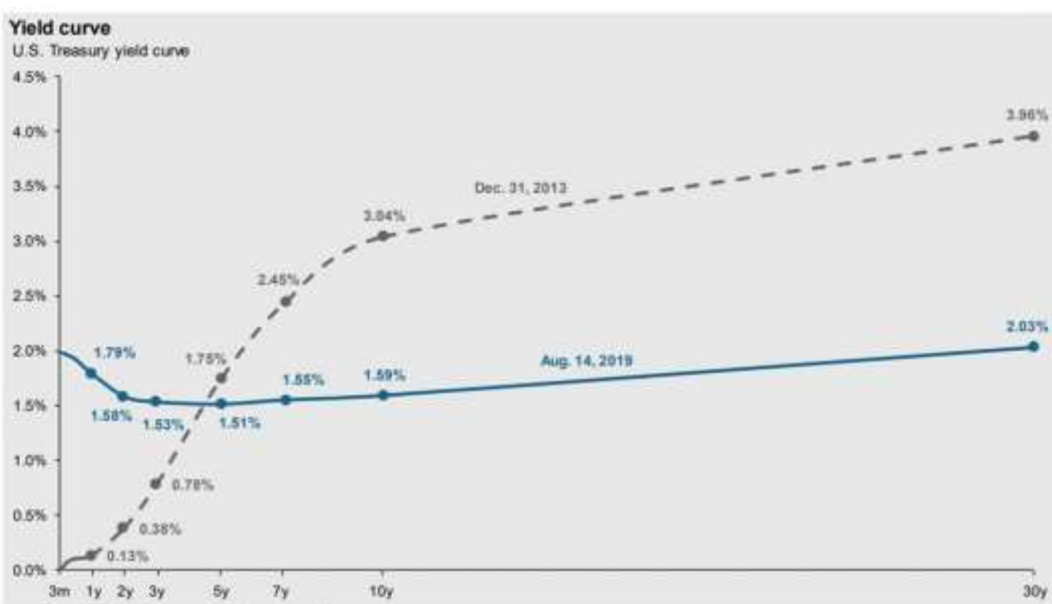
Albeit a small sample size, yield curve inversions have frequently preceded prior recessions. Depending on your news focus, you might view future growth prospects as potentially challenging: fading fiscal stimulus, lingering trade-related uncertainty overshadowing business sentiment, and the economy is arguably at full employment while running out of workers.

While it is reasonable for investors to be concerned about future growth under these circumstances, it won’t change the future nor will it predict it. Pessimistic economic situations are rarely as dire as predicted once we afford them enough time to become hindsight.

By certain measures the U.S. economy is slowing, but it is important to consider that the slowdown is happening relative to recent above-trend growth. Additionally, rising trade tensions have been slower to impact the U.S. than other countries, since the U.S. economy relies comparatively less on trade. Meanwhile current inflationary impacts still appear to be minimal relative to the enormous size of U.S. consumption.

Moreover, investors would be wise to remember that the yield curve is not an infallible indicator. This most recent inversion comes roughly a decade into a period of unprecedented monetary policy, with zero or negative interest rates and bloated central bank balance sheets around the developed world. With very little of today’s bond market resembling the bond market of the past, it stands to reason that the yield curve may be a less reliable barometer of future economic health.

While the global economy may be threatened by a variety of factors, the inverted yield curve, in-and-of-itself, is not necessarily one of them.



Source: FactSet, Federal Reserve, J.P. Morgan Asset Management.
Guide to the Markets – U.S. Data are as of August 14, 2019.

U.S. Treasury Yield Curve – August 14, 2019

In brief:

- **The curve has been flattening since early 2017.** However, investors should remember two things: a flatter yield curve is common when the Federal Reserve is raising rates, and the curve can stay flat for extended periods of time.
- **“Indicator” does not equal “Prophecy”: This indicator may no longer be a reliable forecasting tool**. Post-financial crisis monetary policy has been both extreme and unorthodox, which may have artificially warped the present yield curve, making comparisons to historical curve events less relevant.
- **Short-Term markets fluctuate around expectations:** The stock market rally that began in early-June could be predicated on the notion that the back half of the year would be characterized by moderate growth, lack of escalation on trade, and a very easy Fed. This idealistic trinity of positive conditions in 2019 simply may not materialize. Over the past few days, high expectations met a more subdued reality on trade and monetary policy. Economic pessimism and optimism are factored into current prices nearly instantaneously. Trying to avoid short-term volatility based on a predictions about present or future market sentiment isn’t a prudent strategy.

Being bombarded with data and headlines presented as impactful to your financial well-being can evoke strong emotional responses from even the most experienced investors.

In the mind of some investors, there is always a “crisis of the day” or potential major event looming that could mean the beginning of the next drop in markets. As we know, predicting future events correctly, or how the market will react to future events, isn’t really possible to do with certainty. Volatile markets are precisely why we can reasonably expect long-term returns.

To enjoy the benefit of higher potential returns, investors must be willing to accept increased uncertainty. A key part of a good long-term investment experience is exercising the discipline to pursue your investment philosophy, especially during turbulent times. As always, if you have questions, concerns or just want a brief reassuring conversation about investing for the long haul, be sure to give us a call.

Have a great weekend!

Source: Efficient Advisors

Golf Tip of the Week

One- or Two-Plane Swing: Which is Best for Your Game?

Your swing plane impacts the trajectory and the direction of your golf ball, and it's an important fundamental in your form. Generally, golfers adapt one of two swing plane types – the one-plane swing and the two-plane swing.

The one-plane swing is what most golfers adapt when they start playing, and some pro golfers, like Vijay Singh, continue to use. With a one-plane swing, you use your torso, arms, and shoulders to rotate away from the ball, end with your hips, and then use that momentum to go back to your shot. The one-plane swing allows for the hands, arms, shoulders, and hips to all work together.

The two-plane swing is less smooth than the one-plane, but when you master it, you may be able to generate more power. In a two-plane swing, you place your hands high on the backswing and adjust your feet as you move the club onto another plane during the downswing and through impact. If you watch professional golf tournaments, many of today's top golfers use a two-plane swing. But it's more difficult and has a steeper learning curve.

Tip adapted from Golf Influence[i]

Recipe of the Week

Baked Kale Chips

[5 Dozen]

Ingredients:

- A bunch of kale
- Olive oil
- Seasoning, depending on preference (salt, ranch powder, nutritional yeast, chili powder, etc.)

Directions:

These healthy alternatives to potato chips are (almost) as good as the real thing. Plus, they're super simple to make and will please even the pickiest of eaters. Eating your veggies has never been so delicious.

1. Preheat the oven to 350° F.
2. Discard the kale stalks and tear apart the leaves into chip-sized pieces. Wash and dry thoroughly.
3. Drizzle the kale with olive oil and add whatever seasonings you prefer.
4. Bake for 10 to 15 minutes. The leaves should be brown, but not burnt.

Recipe adapted from Allrecipes[ii]

Health Tip of the Week

Low-Impact Exercises for Healthy Joints

Protecting your joints is important for healthy movement throughout your life, and there are many ways to stay active without causing injury to your knees, hips, or ankles. Here are some of our favorite, low-impact exercises:

- **Swimming** - Not only is swimming a low-impact exercise, it's also a full-body workout. Hop in the pool and do some laps or just splash around for fun. Either way, it's great for exercising and staying cool in this hot August weather.
- **Kickboxing** - It sounds intense, but kickboxing is actually a low-impact exercise that's easy on your joints. If possible, modify your workout to focus more on the cardio movements of the sport and not the combat aspect.
- **TRX Exercises** - The TRX strap is the strap you often see hanging from a bar at the gym. This simple accessory makes it easy to do lunges, pullups, pushups, and squats, without putting pressure on your joints.
- **Cycling** - Cycling, either indoors or outdoors, is a great exercise and easy on your knees. Find a spin class near you, or get outside and explore a local bike path.

Tip adapted from Healthline[iii]

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[i] https://www.golfinfluence.com/skill/golf-swing-plane/
[ii] https://www.allrecipes.com/recipe/176957/baked-kale-chips

[iii] https://www.healthline.com/health/fitness-exercises/low-impact-exercises