

Weekly Market Commentary February 26, 2018

The Markets

U.S. Treasuries are offering a lesson in supply and demand.

Last week, the U.S. Treasury auctioned \$258 billion in bonds. Treasury auctions are the way the United States government finances its debt. The Treasury sells short-, intermediate-, and long-term IOUs, known as bills, notes, and bonds. When investors and governments purchase bonds, they agree to lend money to the United States. In return, the United States agrees to pay an amount of interest over a certain period of time. At the end of that time, the government is expected to repay the money borrowed.

The price and interest paid on U.S. government debt is determined by supply and demand. When there are few bonds and a lot of demand, prices rise and interest rates fall. When there are a lot of bonds and little demand, prices fall and interest rates rise.

Last week, *Barron's* reported, "The law of supply and demand meant that the glut of new Treasuries temporarily drove down prices and pushed up yields. The 10-year Treasury climbed during the week – brushing 2.95 percent – but ultimately lost half a basis point, ending at 2.87 percent. (A basis point is a hundredth of a percentage point.)"

The Treasury increased its debt issuance to fund tax reform and the two-year federal budget. *Reuters* reported, "...tax reform is expected to add as much as \$1.5 trillion to the federal debt load, while the budget agreement would increase government spending by almost \$300 billion over the next two years."

A surplus of Treasury bonds, in tandem with decreased demand as the Federal Reserve reduces the holdings it accumulated during quantitative easing (an unconventional monetary policy in which a central bank purchases government securities in order to lower interest rates, increase the money supply, and stimulate the economy), could push Treasury rates higher. In addition, *MarketWatch* reported the Federal Reserve appears to be committed to gradually increasing the Fed funds rate to avoid an overheating economy and keep inflation down.

Higher interest rates may be coming.

Data as of 2/23/18	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	0.6%	2.8%	16.3%	9.2%	13.1%	6.3%
Dow Jones Global ex-U.S.	0.1	1.6	19.3	4.9	4.6	0.7
10-year Treasury Note (Yield Only)	2.9	NA	2.4	2.1	1.9	3.9
Gold (per ounce)	-1.8	2.4	6.4	3.3	-3.5	3.5
Bloomberg Commodity Index	0.6	0.6	1.5	-4.5	-8.4	-8.2
DJ Equity All REIT Total Return Index	-0.3	-8.0	-3.6	2.2	7.4	6.9

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.

OLYMPIC ATHLETES HAVE TO PAY THE BILLS, TOO. Not every American Olympian and Paralympian is a household name. *Money.com* reported, “These athletes don’t have the same kind of lucrative sponsorship deals as Olympic standouts like snowboarder Shaun White or alpine skiing star Lindsey Vonn – so they have to make ends meet, which can often mean squeezing in extra shifts during the off season, heading to the gym early in the morning before work and moving from a full-time position to a part-time one with no replacement for those lost wages.”

So, how do lesser-known athletes pay the bills while training?

- Sled hockey player Josh Pauls is a sales account executive. His teammate Steve Cash is a personal banker.
- Pairs figure skater Chris Knierim works as an auto mechanic and wants to have his own auto shop someday.
- Biathlon competitor Lowell Bailey is a singer and songwriter who plays in bluegrass bands.
- Curling team member Nina Roth is a registered nurse. Her teammate Tabitha Peterson is a pharmacist.
- Snowboarder Jonathan Cheever is a licensed plumber.
- Luger Emily Sweeney is a member of the National Guard, and so is bobsledder Nick Cunningham.
- Short track speed skater Jessica Kooreman has a real estate license.
- Luger Justin Krewson is a firefighter.
- Snowboarder Mike Schultz designs and engineers prosthetics.
- Nordic skier Kendall Gretsch works in tech support.

There is a lot to admire about Olympic and Paralympic athletes.

Weekly Focus – Think About It

“There are only three ways to meet the unpaid bills of a nation. The first is taxation. The second is repudiation. The third is inflation.”

--Herbert Hoover, 31st President of the United States

Best regards,

“Your Beacon Wealth Management Team”

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 email with their email address and we will ask for their permission to be added.

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- * Government bonds and Treasury Bills are guaranteed by the U.S. government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value. However, the value of fund shares is not guaranteed and will fluctuate.
- * Corporate bonds are considered higher risk than government bonds but normally offer a higher yield and are subject to market, interest rate and credit risk as well as additional risks based on the quality of issuer coupon rate, price, yield, maturity, and redemption features.
- * The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general. You cannot invest directly in this index.
- * All indexes referenced are unmanaged. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment.
- * The Dow Jones Global ex-U.S. Index covers approximately 95% of the market capitalization of the 45 developed and emerging countries included in the Index.
- * 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.
- * Gold represents the afternoon gold price as reported by the London Bullion Market Association. The gold price is set twice daily by the London Gold Fixing Company at 10:30 and 15:00 and is expressed in U.S. dollars per fine troy ounce.
- * The Bloomberg Commodity Index is designed to be a highly liquid and diversified benchmark for the commodity futures market. The Index is composed of futures contracts on 19 physical commodities and was launched on July 14, 1998.
- * The DJ Equity All REIT Total Return Index measures the total return performance of the equity subcategory of the Real Estate Investment Trust (REIT) industry as calculated by Dow Jones.
- * Yahoo! Finance is the source for any reference to the performance of an index between two specific periods.
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