

# PORTFOLIO INSIGHTS

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## Acropolis was born from a simple idea:

In an industry where high quality, objective advice is hard to come by, we make a difference by putting the client's interests above our own.

## Optimal Malaise Powers Markets

Last October, Federal Reserve Chair Jerome Powell uttered some of the most important words of his career when he said that the Fed Funds rate was 'a long way' from neutral, which was a signal that more interest rate hikes were forthcoming.

Markets responded negatively; over the next three months, stocks sold off by nearly 20 percent and the yield on the 10-year fell from 3.1 to 2.7 percent. A small part of the yield curve inverted slightly, and stock and bond investors alike worried about the possibility of a recession.

In early January, the Chair heard the market clamor and made his now famous 'Powell Pivot,' and said that the Fed would be patient about further hikes, putting the three-year process of hikes on hold. The stock market cheered with a mega rally in the first quarter of 13.7 percent that continued in the second quarter, albeit more muted with a 4.3 percent gain.

Investors are piling into bonds, driving their prices higher, which sends their yields lower. The yield on the 10-year Treasury continued to slide, falling from 2.6 to 2.4 in the first quarter and then from 2.4 to 2.0 in the second quarter. As a result, the yield on the 10-year Treasury is now well below the Fed Funds rate and the yield curve is fully inverted through the 15-year bond.

While bond market investors are clearly concerned, stock market investors appear to be banking on rate cuts that are now widely expected. At this point, markets are pricing in a 75 percent chance of a quarter-percent cut and a 25 percent chance of a half-percent cut.

Whatever happens, investors should temper their expectations about the second half of this year. The annualized gains on the S&P 500 and Barclays Aggregate bond index for the first half of this year are 41.5 and 12.9 percent respectively - more than we can reasonably expect in good times, let alone in what is likely to be within a few years of the end of the economic cycle.



“Experience is the teacher  
of all things.”  
- Julius Caesar, Roman  
General and Dictator

## Stock Market Summary

By Tim Side

Stocks continued to advance in the second quarter as the S&P 500 Index marked its best first half of the year since 1997. The major themes of monetary policy, trade, and divergence between stocks and bonds continued to dominate headlines along with heightened tensions in the Middle East, resulting in some volatility in oil prices.

Markets are currently anticipating an “insurance” rate cut in July with the possibility of additional cuts later in the year. The easing monetary policy combined with easing trade tensions in June helped push stocks higher for the quarter with major large-cap indexes finishing just below all-time highs at quarter end.

The S&P 500 Index is now the best performing asset class year-to-date, gaining 4.8 percent for the quarter to finish the first half of the year up 18.5 percent.

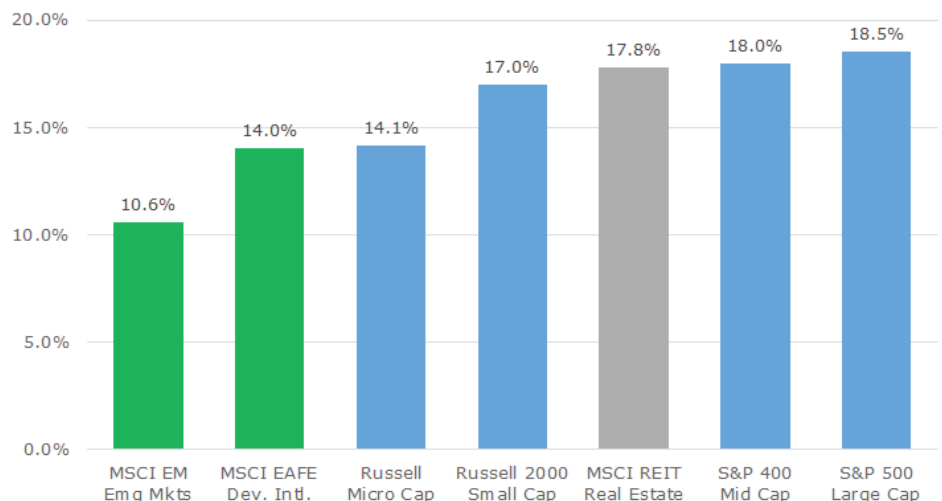
The financial sector was the best performing sector, rising 8.0 percent in the quarter, followed by materials and information technology, which

gained 6.3 percent and 6.1 percent respectively. Energy was the only negative sector on some oil price volatility, falling -2.8 percent in Q2.

Mid-cap, small-cap, and micro-cap stocks all lagged the S&P 500 Index, although performance was still positive as they gained 3.5 percent, 2.4 percent, and 1.0 percent respectively. Lower interest rate expectations weighed on REITs after being the best performing asset class in Q1 as the index gained only 1.5 percent in Q2.

After falling sharply in May on negative trade sentiment, USD hedged international markets rallied in June as tensions eased and the dollar weakened. Developed international markets finished the quarter with a gain of 4.0 percent while emerging markets did not fare as well, gaining just 0.7 percent. This quarter, hedging for currency changes had little impact.

Selected Stock Index YTD Returns



Data Source: Bloomberg

# Bond Market Review

By David Ott

Amid all of the remarkable events that happened in the bond market during the second quarter (the sharp decline in yields and the material curve inversion), the most amazing thing to me is the surging volume of bonds that trade globally with a negative yield.

This isn't a particularly new phenomenon; I first saw it during the 2008 financial crisis when the demand for three-month Treasury bills was so strong that prices rose to the point where yields were negative. I was so surprised that I printed a screenshot and put in in a file that I pull out periodically and say, 'remember when?'

While I haven't seen negative yields on US bills since then, negative yield bonds became commonplace in 2015 as bond investors in Europe worried about deflation and the chance that the euro would break up.

After a while those concerns abated and the number of bonds

trading with negative yields began to fall.

This year, as global investors worry about an economic slowdown and are counting on central banks to ramp up stimulus, yields are firmly in negative territory again.

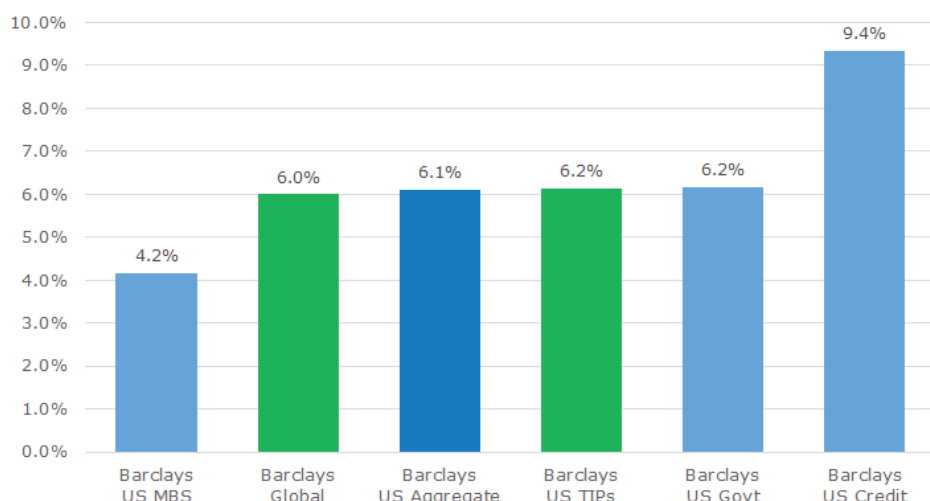
For example, the 10-year German bund has a yield of -0.3 percent. In Switzerland, where you don't have to worry about the euro, the 10-year yield is -0.5 percent. There are plenty of other examples.

In fact, Bloomberg reports that \$13 trillion of the \$33 trillion global government bond market is now trading with a negative yield. I never dreamt that a full 40 percent of government bonds would trade with a negative yield, especially as far out as ten years.

Unfortunately, it's quite unclear what this means going forward, other than that bonds have a low expected return and that higher, more 'normal' interest rates aren't on the near-term horizon.

**"Chance fights ever on the side of the prudent."**  
- Euripides, Greek Playwright

Selected Bond Index YTD Returns

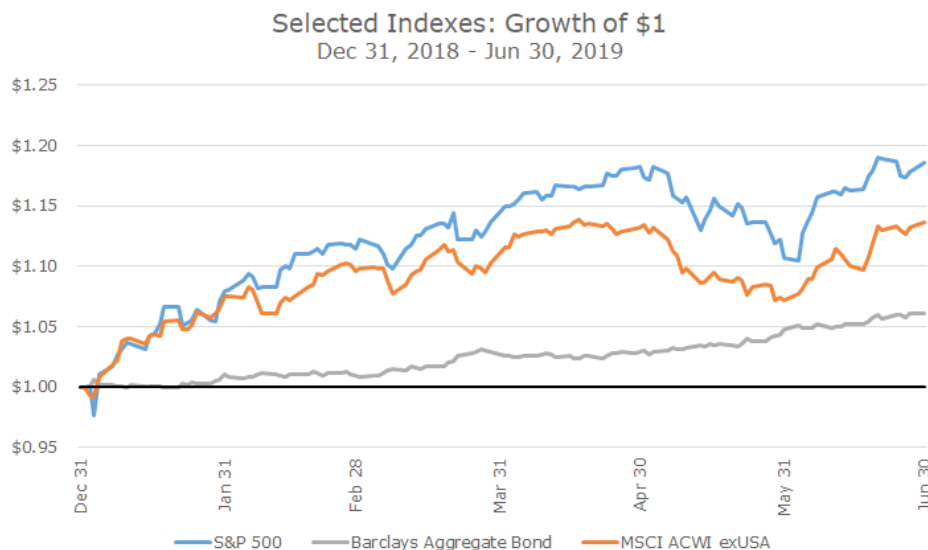


Data Source: Bloomberg

Data Center	2019 YTD
Dow Jones	15.40%
S&P 500	18.54%
S&P Midcap	17.96%
Russell 2000	16.97%
MSCI EAFE (Intl)	14.03%
MSCI Emerging Mkt	10.58%
S&P Sectors	2019 YTD
Basic Materials	17.26%
Consumer Discretion.	21.84%
Consumer Staples	16.18%
Energy	13.13%
Financials	17.24%
Healthcare	8.07%
Industrials	21.38%
REITs	20.42%
Technology	27.13%
Communications	26.72%
Utilities	14.70%
Interest Rates	2019 Q2
Fed Funds	2.50%
Prime Rate	5.50%
3-mo. Treasuries	2.09%
2-yr. Treasuries	1.76%
5-yr. Treasuries	1.77%
10-yr. Treasuries	2.01%
Currencies	2019 Q2
Euro	1.1373
Japanese Yen	107.85
British Pound	1.2696

All Data as of 06/30/2019

## The Big Picture



## Fast Facts: Healthcare Costs Edition

**69x** The increase in healthcare costs in the US from 1960 to 2016, from \$151 per person to \$10,320 per person. In 2016 dollars, the cost in 1960 was \$1,248 per person, for a 'real,' inflation-adjusted change of 8x. Gross Domestic Product (GDP) grew by 3.6x during the same time period.

**No More than \$1** The proposed monthly cost of Medicare hospital

insurance by Lyndon Johnson in his 1964 State of the Union speech. Adjusted for inflation, that's \$8.02 per month today, far less than the actual cost today, which ranges from \$121 for workers earning \$50,000 and \$642 for workers earning \$250,000.

**30%** The percent of federal outlays spent on healthcare, up from three percent in 1959.

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