Gordian WEALTH ADVISORS

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Market Update
(all values as of 09.28.2018)

Stock Indices:

Dow Jones	26,458
S&P 500	2,913
Nasdaq	8,046

Bond Sector Yields:

2 Yr Treasury	2.81%
10 Yr Treasury	3.05%
10 Yr Municipal	2.62%
High Yield	6.20%

YTD Market Returns:

Dow Jones	7.04%
S&P 500	8.99%
Nasdaq	16.56%
MSCI-EAFE	-3.76%
MSCI-Europe	-4.86%
MSCI-Pacific	-2.01%
MSCI-Emg Mkt	-9.54%
US Agg Bond	-1.59%
US Corp Bond	-2.33%
US Gov't Bond	-1.84%

Commodity Prices:

Gold	1,196
Silver	14.69
Oil (WTI)	73.56

Currencies:

Dollar / Euro	1.16
Dollar / Pound	1.31
Yen / Dollar	113.01
Dollar / Canadian	0.76

Macro Overview

The Fed raised rates for the third time this year, signaling it was on track for further hikes over the next few months. Rates moved higher across the fixed income spectrum, with the 10-year Treasury bond piercing the 3% mark, a level last reached in May of this year. The Federal Reserve also revised its estimates for GDP growth from 2.8% to 3.1% for 2018, with an eventual slowing to1.8% by 2021.

Newly imposed tariffs by the Department of Commerce on Chinese imports became effective in late September. The $200 billion worth of tariffs will begin at a 10% rate and increase to 25% by year end should the two countries not come to an agreement.

The Department of Commerce is incentivizing U.S. companies to shift production of goods in China to the U.S. by allowing companies to redirect production prior to year end before tariffs are scheduled to reach 25% on Chinese made products.

Equity markets brushed aside ongoing concerns over escalating international trade tensions and instead focused on economic expansion in the United States. Analysts are seeing the benefits of the recent tax cuts and deregulation translate into expanding earnings for U.S. companies. Economists are also citing the tax cuts as a monumental factor in economic expansion.

Preliminary damage estimates following the destruction caused by hurricane Florence are expected to reach between $38 billion and $50 billion.The cost of Florence is not expected to be anywhere near the cost of hurricanes Harvey, Maria, or Irma, yet will impose additional strain on an all ready straddled insurance industry. Damage estimates are compiled by Moody's which tracks the claims paying ability of insurance companies, especially during periods of significant payment of claims. The Federal Emergency Management Agency (FEMA) has thus far received over 8,000 claims for flood damage which allows for a $5,000 payment without an adjuster visit.

Oil prices headed higher in September topping levels not reached since 2014. Global energy markets reacted to limited production from OPEC, Saudi Arabia, Russia and the United States. The price for a barrel of Brent oil, which is priced internationally, reached $80 while the price of domestic oil priced as WTI surpassed $72. Adding to the supply strain were recently imposed sanctions on Iranian oil exports along with production constraints in the U.S.

Consumer sentiment reached its second highest level since 2004, as tracked by the University of Michigan's Consumer Sentiment Index. Sentiment among consumers improved across all income categories with the expectation of higher wages and continued job growth. Modest levels of inflation also propelled confidence among consumers.

The White House Council of Economic Advisers reported that 623 companies this past month announced bonuses, pay increases, and better benefits as a result of the recent tax cuts. The council also estimates that over 6 million American workers have so far directly benefited from the tax law changes. (Sources: Fed, Dept. of Commerce, Moody's, EIA, White House Council of Economic Advisers)

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THE OECD ESTIMATES U.S. ECONOMIC GROWTH AT 2.9% FOR 2018, UP FROM 2.2% IN 2017

Economic Data Influences Stocks – U.S. Equity Update

Major equity indices all posted gains for the third quarter, with the S&P 500 advancing 7.2%, the Dow Jones Index gaining 9%, and the Nasdaq rising 7.1%. It was the single best quarter for stocks since 2013, buoyed by recent corporate tax cuts, improving earnings, and stable economic growth.

A notable shift occurred in the third quarter as equities surpassed real estate as the largest portion of household wealth. Real estate has out-valued equities as a percentage of household wealth for nearly 20 years.

Investments by companies in the S&P 500 Index increased to $341 billion in the first half of 2018, exceeding the same period last year by 19 percent. The increase in investments is on pace to be the most significant in nearly 25 years.

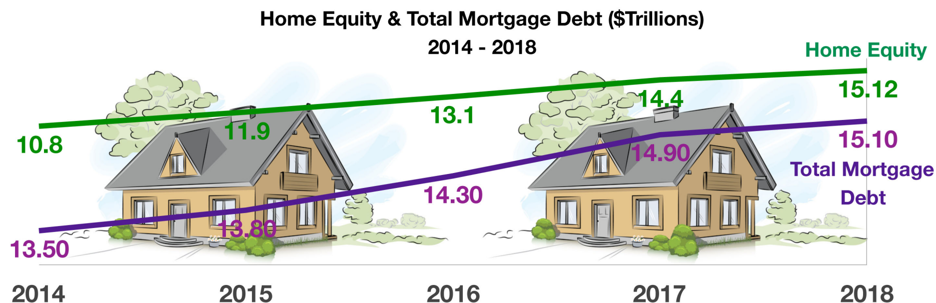
Several analysts are forecasting that the positive effects of the recent tax cuts will begin to fade as higher interest rates begin to inflate capital borrowing costs.

Growth estimates from the Organization for Economic Cooperation and Development (OECD) place U.S. economic growth at 2.9% for 2018, up from 2.2% in 2017, making it the fastest pace of growth since 2005. (Sources: S&P, Bloomberg, OECD, Dow Jones, NASDAQ)

Household Equity Rising as Mortgage Debt Falling – Housing Market Overview

Following the debacle of the housing crisis from ten years ago, homeowners have become less ambitious and more conservative. Equity levels in homes across the country have respectfully increased past mortgage debt levels over the past few months. The latest data from the Fed shows that household equity is approaching $16 trillion, exceeding the level of mortgage debt standing at $15.1 trillion.

Contributing to the rise in home equity includes rising real estate values, a sustained low rate environment, limited housing supply, and an improving economic environment.



The amount of mortgage debt held by homeowners has not yet returned to the levels seen since before the housing crisis. Homeowners have become more conservative and less ambitious as they were during the crisis. Americans are also staying in their homes longer which helps build equity faster as opposed to moving and taking out a new loan laden with fees and interest payments. The Fed report notes that homeowners are taking much less equity out of their homes relative to the crisis period. The Fed data has also identified that more cash buys are prevailing throughout the market, helping to somewhat reduce the reliance on mortgage loans. (Sources: FRED; Federal Reserve Bank of St. Louis)

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90% OF IBUPROFEN CONSUMED IN THE U.S. IS IMPORTED FROM CHINA

Products Exempted From New Tariffs.....For Now – Trade Policy

Of the 5,745 products that have been tagged with tariffs as they arrive in the U.S. from China, a handful have been omitted from tariffs. Among the exempted products are ibuprofen, barite, fluorine salts, and smartwatches. As newly imposed tariffs became effective in late September, numerous industries and companies have realized how vulnerable the U.S. is to various products and materials exclusively supplied by China.

Fluorine salt, an essential chemical used to manufacture electrolytes for electric car batteries, is exempt from tariffs for the time being. Certain auto manufacturers and battery manufacturers located in the U.S. lobbied heavily to keep the chemical off the tariff list. The mineral barite is used widely in the U.S. energy industry for the purpose of facilitating the use of drilling fluids in oil and gas exploration.

Department of Commerce data reveals that 90% of ibuprofen consumed in the U.S. is imported from China. Even though actual pills and tablets are produced in the United States, the key ingredient is imported directly from China. Various medical groups lobbied to have ibuprofen exempt from tariffs since it is widely used as a safe and easily available medication. Because of its broad medical application, the World Health Organization has placed ibuprofen on its list of Essential Medicines.

A range of businesses from enormous energy companies to smaller suppliers of specialty parts have lobbied for tariff exemptions ever since the tariff wars began. Many have agreed that China has become an indispensable supplier of many raw and essential products used in the U.S. China has become a global producer of relatively obscure industrial commodities used in a host of numerous products, which the U.S. has become increasingly reliant on.

Recently imposed tariffs currently affect about $250 billion of Chinese imports, with an additional $267 billion proposed by year end. China has thus far retaliated with $110 billion in tariffs on U.S. products, yet exempted certain products such as oil. The ratio of trade between the U.S. and China stands at 4-to-1, meaning that for every 4 Chinese products the U.S. buys, China buys 1. (Sources: Commerce Department, World Health Organization)

Rates On The Rise – Fixed Income Update

The Fed announced its third rate hike for the year, indicating another rate increase anticipated in December and three more to follow in 2019. The Fed's key policy rate, the Federal Funds Rate, now stands at a range of 2% – 2.25%, the highest in ten years. Borrowing rates are gradually increasing in various consumer sectors including autos, appliances, and home mortgages. Many analysts believe that the current Fed Chairman, Jerome Powell, may have the ability to orchestrate a soft landing, meaning raising interest rates gradually without triggering a recession or economic slowdown.

Of the various fixed income sectors, U.S. corporate high-yield bonds had the least amount of price declines in September, outperforming both government and investment grade debt. Some analysts view this as a validation of improving financial conditions for U.S. companies and their ability to repay debt. (Sources: Treasury Dept., Federal Reserve, Bloomberg)

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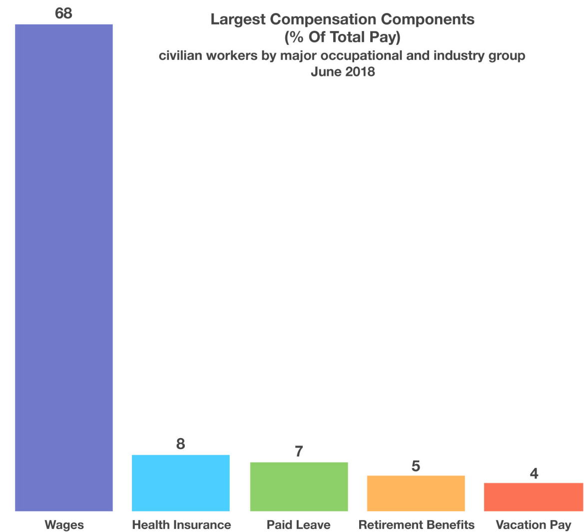
623 U.S. COMPANIES ANNOUNCED BONUSES, PAY INCREASES, AND BETTER BENEFITS

Larger Increase in Benefits Than Income – Labor Market Review

As companies struggle to keep existing qualified workers as well as attract and hire new workers, the task of keeping labor costs minimized becomes an increasing challenge. Rather than paying higher wages, some employers are compensating their employees with enriched benefits.

The Department of Labor monitors not only how much companies pay their employees, but the breakdown of how companies are compensating their employees. The most recent data released shows that companies are spending more on health insurance, retirement savings, bonuses, vacation time, and other group benefits rather than increasing wages. The recent gain in benefits grew by nearly 12% for bonuses and benefits.



With unemployment near 18-year lows, the 3.9% unemployment rate has led to numerous job openings that exceed the number of jobless seeking work. This tightening has led to employers using bonuses and benefits to maintain and recruit skilled employees.

This past month, the White House Council of Economic Advisers reported that 623 U.S. companies announced bonuses, pay increases, and better benefits as a result of the tax law changes. (Source: Labor Department; September 18, 2018 Release,USDL-18-1499, White House Council of Economic Advisers)

When Taxes Replaced Tariffs – Historical Note

As a young country, the first of tariffs enacted to protect American business interests was the Tariff Act of 1789. The act was written to raise funds for the newly established government, reduce debt from the Revolutionary War, and protect U.S. companies from unfair foreign competition. At the time, Congress passed tariff amounts from 5% to as high 50%. For the next 150 years, tariffs generated the vast majority of revenue for the federal government, until Congress ratified the 16th amendment in 1913 allowing the imposition of federal income taxes. Tariffs began to lose their importance thereafter once federal tax revenue began coming in.

Presidents varied on their views regarding tariffs over the decades, yet Abraham Lincoln said in 1847 that “Give us a protective tariff and we will have the greatest nation on earth”. Tariffs eventually paid for some of the costs of the Civil War for the north.

By the end of the second World War, the U.S. economy had become enormous with American companies dominating the international markets. For the next 60 years, U.S. policy sought to reduce trade barriers and tariffs in order to expand and maintain commerce throughout the world. (Sources: Library of Congress; https://archive.org)

*Market Returns: Index data sources; MSCI, DJ-UBSCI,WTI, IDC, S&P. The information provided is believed to be reliable, but its accuracy or completeness is not warranted. This material is not intended as an offer or solicitation for the purchase or sale of any stock, bond, mutual fund, or any other financial instrument. The views and strategies discussed herein may not be appropriate and/or suitable for all investors. This material is meant solely for informational purposes, and is not intended to suffice as any type of accounting, legal, tax, or estate planning advice. Any and all forecasts mentioned are for illustrative purposes only and should not be interpreted as investment recommendations.