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| **JULY RESOURCE LOG – 2016** | | | | |
| **Article Title** | **Detail** | **Publication** | **Date** | **Author** |
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| What’s News | ♦ U.S. stocks rallied to end the first half. The Dow climbed 235.31 to 17929.99, up 2.9% for the year. | The Wall Street Journal | 06/30/2016 |  |
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| Worries Grow at Two Big Banks  *Deutsche Bank shares tumble after IMF calls it the riskiest financial institution in the world* | It’s a superlative Deutsche Bank AG could have done without.  The International Monetary Fund called the German bank the riskiest financial institution in the world as a potential source of external shocks to the financial system. That labeling came right after a U.S. banking unit of Deutsche Bank was one of just two banks to fail the Federal Reserve’s “stress Test,” an exercise measuring how 33 banks would fare in the event of another financial crisis. | The Wall Street Journal | 07/01/2016 | Friedrich Geiger and Ryan Tracy |
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| Worries Grow at Two Big Banks  *Tidjane Thiam, who is revamping Credit Suisse, now also faces upheaval tied to Brexit* | A year after Tidjane Thiam took the helm at Credit Suisse Group AG…  …became CEO of the bank, at a time it faced growing calls to curb its reliance on volatile, and costly investment-banking operations.  The bank announced big, surprise trading losses in March.  During his tenure, Credit Suisse’s shares have lost roughly 60% of the value… | The Wall Street Journal | 07/01/2016 | John Letzing |
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| What Brexit? Risk Returns  *Some investors wager that developing countries will rebound faster than in the past* | A week after the U.K. vote to leave the European Union sparked a global market rout, some investors already are betting that emerging markets are on their way back.  Stocks and bonds in the developing world suffered huge losses after the U.K.’s surprise decision.  The gains in emerging markets were part of a broader global rally that included oil prices and U.S. stocks.  Emerging markets got off to a fast start in early 2016 alongwide other riskier assets like stocks, oil and other commodities.  Those gains reflected a sharp turn in investor thinking. Emerging markets had suffered declines for most of the past three years.  But the introduction of negative rates in Japan and parts of Europe sent some investors looking for higher-yielding assets in the developing world.  The dollar fell to its lowest level in nearly a year last month, after soft jobs data… A weaker dollar makes it easier for emerging markets to service debt that is denominated in the U.S. currency. It also tends to boost prices for raw materials such as oil and metals, a key export of many developing countries. | The Wall Street Journal | 07/02-03/2016 | Julie Wernau and Ira Iosebashvili |
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| Stocks Post Biggest Weekly Gain of 2016 | U.S. stocks rose, wrapping up their biggest weekly gain of the year on a rebound that followed the U.K.’s vote to leave the European Union.  The Dow Jones Industrial Average and the S&P 500 both rose more than 3% this week and are now down less than a percentage point from their pre-Brexit levels.  However, many investors say longer-term Brexit-related risks remain, particularly in the U.K. and Europe.  The Dow Jones Industrial Average rose 19.38 points, or 0.1%, to 17949.37,… The S&P 500 climbed 4.09 points, or 0.2%, to 2102.95… | The Wall Street Journal | 07/02-03/2016 | Aaron Kuriloff and Riva Gold |
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| Treasury Yields Plumb Historic Lows Amid Brexit Fallout | Markets closed the week still bearing the mark of Britain’s decision to exit the European Union, with a broad rebound in stocks tempered by a renewed sense o caution in bonds.  Yields on the benchmark 10-year Treasury note briefly touched their lowest level ever at 1.385% Friday before rebounding, while yields on the 30-year U.S. bond and 10-year U.K. government debt both closed at record lows of their own, according to data from Tradeweb. | The Wall Street Journal | 07/02-03/2016 | Sam Goldfarb, Jon Sindreu and Min Zing |
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| Factory Gauge Rose Again Last Month | A gauge o U.S. manufacturing rose for the second straight month in June, to its highest level since February 2015, putting the sector on stable footing for the second half of the year.  The Institute of Supply Management on Friday said its index of manufacturing activity climbed to 53.2 in June from 51.3 in May. A reading above 50 indicates expanding activity. | The Wall Street Journal | 07/02-03/2016 | Anna Louie Sussman |
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| Upgrades and Downgrades After Brexit | ♦ We have updated our asset vies to reflect political uncertainty, weaker global growth and low-for-longer interest rates ahead.  ♦ Global stocks have regained some of what they lost in the two trading days post Brexit, but safe-haven assets remain resilient.  We have trimmed our global expectations, and now expect a modest slowdown over the next 12 months. We see risk of a U.K. recession and European slowdown, as Brexit uncertainties weigh on sentiment. We see limited direct economic impact on the U.S., developed Asia and emerging markets (EM), but increased downside risks.  We expect lower rates ahead, with the Bank of England set to cut interest rates soon. U.S. rates on hold and potential for further quantitative easing in the U.K., Eurozone and Japan.  In response, we have downgraded European stocks to underweight, with a negative view of the Eurozone banking sector. We have a preference for income, and have upgraded U.S. credit and EM debt to overweight. Overall, in today’s uncertain, low-growth environment, we prefer credit to equity… | BlackRock | 07/05/2016 | Richard Turnill & BlackRock Investment Institute |
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| Stocks Need A Surprise to Drive Rally  *Gains could hinge on earnings growth, which lately has been noticeably absent* | …said Sameer Samana, global quantitative strategist at Wells Fargo Investment Institute.  For the market to go up, he and other investors say, there now needs to be some sort of positive surprise, such as better-than-expected economic news or corporate results.  The prospect of further easing by central banks in Europe and Japan to spur economic growth helped lift global stocks last week.  But even as stocks respond well to low interest rates, in the U.S., investors also want to see economic strength and profit growth, even if that could ultimately help justify a turn in rate policy. | The Wall Street Journal | 07/05/2016 | Corrie Driebusch |
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| For Investors, Fewer Places to Hide  *Where investors can still find gains, while managing risk, for the second half* | Volatility is back with a vengeance after Britain’s vote to exit from the European Union sparked a correction that many investors had been fearing. Now, more developments loom that could fuel further gyrations from signs of economic weakness and uncertainty about interest rates to the election. | The Wall Street Journal | 07/05/2016 | Michael A. Pollock |
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| What’s News | Few firms had any contingency plans to defend against the fallout or seize the opportunity presented by Brexit. | The Wall Street Journal | 07/05/2016 |  |
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| Italy’s Banks Loom as Europe’s Next Crisis | Britain’s vote to leave the EU has produced dire predictions for the U.K. economy. The damage to the rest of Europe could be more immediate and potentially more serious. Nowhere is the risk concentrated more heavily than in the Italian banking sector.  In Italy, 17% of banks’ loans are sour. That is nearly 10 times the level in the U.S., where, even at the worst of the 2008-09 financial crisis, it was only 5%. Among publicly traded banks in the Eurozone, Italian lenders account for nearly half of total bad loans. | The Wall Street Journal | 07/05/2016 | Giovanni Legorano |
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| Brexit Adds to Load of Weary Central Banks | Central banks are at their best when they have a correct and clear vision of economic developments and prospects, as well as the tools to deliver good outcomes, whether they are acting alone or with other policy makers. The congressional testimony delivered by Fed Chair Janet Yellen last week suggests that these qualities may currently elude the U.S. central bank. Worse, the policy challenges facing Fed officials pale in comparison with those of their colleagues in Europe.  …central banks have taken on unprecedented policy responsibilities in recent years. This wasn’t done by choice but by necessity, as other national economic policy-making institutions have been sidelines by political polarization. Repeatedly, and excessively, the banks have felt compelled to venture deeper in uncharged policy terrain, using a range of unconventional – and untested – measures to buttress economic growth and avoid disruptive deflation.  There isn’t much that either central bank can do to compensate for the structural uncertainties associated with the outcome of the referendum. Moreover, their attempts at action will be neither cost-nor risk-free.  Regrettably, national politics continue to hinder such a response and global policy coordination remains inadequate, so central banks may instead be forced to try to do even more with already stretched and almost exhausted tools that are ill-equipped for the task at hand. | Financial Advisor | 07/05/2016 | Mohamed El-Erian/Bloomberg View |
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| Europe is a Minefield | …pay very close attention to whether it is the EU Council or the EU Commission that gets to take the lead role in negotiating with Britain. This point is already the subject of a very acrimonious debate in Europe. If the Commission (basically the Brussels bureaucracy) wins, they will want to punish Britain. If the EU Council gets the right to be the lead negotiator, they will want to try to figure out a way to make it all work, especially trade and commerce.  How that situation will sort out is anyone’s guess. The German economy is an industrial export machine, one of the best in history. That’s great as long as its customers keep buying-and a huge problem if volume dries up. China is dealing with shrinking export volumes right now. Germany will face a similar challenge soon.  Italian banks have a big problem; something like €400 billion in nonperforming loans. Imagine a much larger version of Greece (in terms of total government debt and banking problems) only a few years ago, and that’s Italy.  The British have presented the union with a dilemma it will have a hard time getting out of. Either it allows Britain to sail away quietly and thus runs the risk of setting a precedent: The political and economic success of a country that left the European Union would be clear evidence of the union’s noxiousness. Or, like a sore loser, the union makes the British pay for their departure by every means possible and thus exposes the tyrannical nature of its power. Common sense points toward the former option. I have a feeling Brussels will choose the latter. | Financial Advisor | 07/05/2016 | John Mauldin |
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| Stocks Hit a Brexit Bump | Investors sold risky assets like commodities in favor of havens like Treasury bonds. The yield on the 10-year U.S. Treasury note settled at a record low of 1.367%, U.S. crude oil dropped 4.9%, to $46.60 a barrel, and gold settled at its highest level since March 2014, up 1.5% to $1,356.40 a troy ounce.  The Dow industrials fell 108.75 points, or 0.6%, to 17840.62. The S&P 500 declined 14.40 points, or 0.7%, to 2088.55, and the Nasdaq Composite Index lost 39.67 points, or 0.8%, to 4822.90.  Shares of commodity-linked companies led the day’s losses.  The energy sector in the S&P 500 fell 1.9%. | The Wall Street Journal | 07/06/2016 | Riva Gold and Akane Otani |
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| Treasurys Signal More Bank Pain | The 10-year Treasury yield fell to 1.367% on Tuesday, the lowest ever. At the same time, the difference between yields on the two-year and 10-year notes fell Tuesday to about 0.81 percentage point, its lowest level in more than eight years. The continuing downward march in yields is expected to render lending less profitable and drive down the income from securities that banks hold.  For now, the decline in long-term rates has occurred without a corresponding drop in short-term interest rates, a phenomenon known as the flattening of the yield curve. Banks say such circumstances can be as detrimental to earnings as the very low interest rates they have been grappling with for some time.  Overall, the drop in long-term yields could drag down bank profits by 2%, Vining Sparks IBG LP analyst Marty Mosby estimates. | The Wall Street Journal | 07/06/2016 | Rachel Louise Ensign |
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| Is This Key Rate Going to Fall to 1%? | The yield closed below 1.4% for the first time at 1.367%, surpassing the previous record low set four years ago, according to data going back to 1977. The question now is how low can they go. Investors buying Treasurys now are taking big risks, as prices of longer-term debt can more significantly if interest rates unexpectedly rise. | The Wall Street Journal | 07/06/2016 | Min Zing |
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| What’s News | ♦ New investments by major energy companies are offering signs that the deep freeze in oil-industry spending is beginning to thaw. | The Wall Street Journal | 07/06/2016 |  |
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| Bank Market Values Crumple  *Sharp price falls make it much more difficult, and expensive, for lenders to raise capital* | Big banks are nearly half a trillion dollars in the hole.  Brexit isn’t all to blame. But they have been losing value since the start of the year, when a group of factors – the Chinese economy, the path of U.S. interest rates, oil prices – weighed on the markets.  More than pride is at stake. Sharp share-price falls will make it much more difficult, and expensive, for banks to raise capital if that is what is ultimately needed to shore up their balance sheets.  Just as bad, a serious decline in market value can breed inaction among bank executives. | The Wall Street Journal | 07/07/2016 | David Reilly |
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| Be Careful: Utilities are Riskier Than They Look | Buyers love the sector for its 3.3% dividend yield and for its terrific recent performance. The sector is up 21.9% this year, making it the second-best sector in the market, trailing only telecom,…  The biggest driver of the good times at utilities is low interest rates. Utilities don’t look so expensive when compared with Treasury yields. The spread between dividend yields on utilities and 10-year Treasurys is nearly 2 percentage points, among the widest ever.  That is because regulators allow utilities to make a specific return on their investments. Utilities borrow a lot, so rates matter. But regulators have lagged behind the reality. So rates are being set as if utilities were borrowing at higher rates than they really are. The difference is profit.  The second benefit for the industry has been lower energy prices. Energy accounts for roughly two-thirds of consumers’ electric bills, and utilities just pass along those costs. | The Wall Street Journal | 07/07/2016 | Ken Brown |
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| What’s News | U.S. stocks slipped and oil prices fell ahead of Friday’s jobs report. The Dow lost 22.74 to 17895.88. | The Wall Street Journal | 07/08/2016 |  |
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| Mortgage Rates Lag as Bond Yields Hit Lows | Government bond yields have plummeted this week, but mortgage rates haven’t fallen so fast.  After plumbing record lows earlier this week, the 10-year yield closed at 1.387% on Thursday. The national average for a 30-year, fixed-rate conforming mortgage was 3.41%, according to the latest data from Freddie Mac released Thursday. | The Wall Street Journal | 07/08/2016 | AnnaMaria Andriotis |
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| FTSE 100 Resilience Isn’t All It Appears  *U.K. stock benchmark is more a reflection of global economy than of Briain’s prospects* | Investors say, however, that the FTSE 100’s heavy weighting of internationally focused companies means that this outperformance doesn’t say much about Britain. Also, sterling’s sharp post-Brexit fall has been good for U.K.-based firms with significant overseas exposure, of which the FTSE is full.  The FTSE 100 is up 4% in local-currency terms since the June 23 referendum, taking gains for the year to 4.7%. That compares with an 11.9% year-to-date drop for the pan-European Stoxx Europe 600 and a 2.6% gain in the S&P 500. | The Wall Street Journal | 07/08/2016 | Christopher Whittall |
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| Jobs Data Propel Markets To Highs | Both the bond and stock markets touched new extremes Friday, a result of June’s job report but also a reminder that current financial conditions have little historical precedent.  The S&P 500 briefly surpassed its record closing-high level in intraday trading after the Labor Department reported a boost to U.S. hiring, erasing all losses after the U.K.’s June 23 vote to leave the European Union.  As stocks marched higher, investor demand for U.S. government bonds, considered one of the safest investments, strengthened. The benchmark security is now yielding its lowest return on record, 1.365%. Bond yields move inversely to prices, meaning the lower the yield, the more expensive the bond. | The Wall Street Journal | 07/09-10/2016 | Corrie Driebusch and Ben Leubsdorf |
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| Black Hole for Bond Yields  *Trend in developed-market sovereign debt spreads to corporate bonds and elsewhere* | The free fall in yields on developed-world government debt is dragging down rates on global bonds broadly, from sovereign debt in Taiwan and Lithuania to corporate bonds in the U.S., as investors fan out further in search of income.  The ever-widening rush for yield could create problems if interest rates snap back, which would cause losses on investors’ low-yielding portfolios, or if credit quality fails.  Yields in the U.S., Europe and Japan have been plummeting as investors pile into government debt in the face of tepid growth, low inflation and high uncertainty, and as central banks cut rates into negative territory in many countries. | The Wall Street Journal | 07/11/2016 | Christopher Whittall and Sam Goldfarb |
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| What’s News | ♦ The S&P 500 climbed back over a record it set more than a year ago, capping an uneven and uncertain recovery in stocks. The index rose to 2137.16, topping its previous high of 2130.82. | The Wall Street Journal | 07/12/2016 |  |
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| Buybacks Pump Up Stock Rally  *Dow industrials climb to a record, index’s first since May 2015* | Records reached this week by major U.S. stock indexes underscore the power of a popular but controversial tool: the corporate share buyback.  The Dow Jones Industrial Average surged 121 points Tuesday, vaulting the 30-sstock measure to its first record close since May 2015, joining the S&P 500, which notched its second record close in two days.  Among the most prominent drivers of the 2016 stock rally has been companies’ willingness to buy back shares. Sone investors decry buy-backs as financial engineering.  While uneven economic growth, tumbling interest rates and a volatile political climate will likely drive wide market swings in the second half of 2016, portfolio managers said, buybacks appear to be providing support for shares. | The Wall Street Journal | 07/13/2016 | Corrie Driebusch and Ben Eisen |
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| Dow Presses On to Historic Peak | The Dow industrials charged to a record Tuesday, surpassing their May 2015 milestone and ending the longest stretch without a record since the period from October 2007 to March 2013.  The Dow Jones Industrial Average rose 120.74 points, or 0.7%, to 18347.67 to climb past its previous closing record of 18312.39 set May 19, 2015.  To get there, the Dow had to overcome two corrections – defined as a fall of at least 10% from a recent peak – since its last high.  Those two downturns, last summer and early this year, came as investors worried about slowing global growth and the possibility of a U.S. recession.  The Dow is up more than 180% from its low hit on March 9, 2009, and up 17% from its 52-week low on Feb. 11. | The Wall Street Journal | 07/13/2016 | Akan Otani and Christopher Whittall |
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| A World Turned Upside Down  *Stocks hit another record-high Wednesday. Bond yields are at historic lows. How to make sense of this upside-down market* | Germany sold 10-year debt at a negative yield on Wednesday, becoming the first euro-zone nation to do so. This was just the latest milestone in the relentless fall of government-bond yields around the world. At the same time, U.S. stocks continue to build on their records, defying traditional market patterns.  Yields in the U.S., Europe and Japan have been plummeting as investors pile into government debt in the face of tepid growth, low inflation and high uncertainty, and as many central banks cut rates into negative territory.  For investors, it means they are now paying for the privilege of lending money to Germany for 10 years, in the sort of upside-down math that is rewriting economics textbooks. | The Wall Street Journal | 07/14/2016 | Emese Bartha and Christopher Whittall |
| Central-Bank Bets Boost Divergent Stocks, Bonds | Bond yields are plummeting – German 10-years Wednesday were the first in the euro-zone to sell at below-zero rates – and stocks are peaking, a divergence extreme enough to suggest investors in each market are living on different planets.  Falling bond yields signal deepening pessimism about the outlook for growth. But stocks are showing signs of optimism, recovering their initial losses.  The Dow Jones Industrial Average reached its second consecutive closing high Wednesday, edging up 24.45 points to 18372.12. …the U.S. sold 30-year bonds at a record-low yield of 2.17%.  Part of the divergence is due to the dollar having gone up since the Brexit vote against sterling and the euro, which benefits British and European multinational companies with sales denominated in dollars. The International Monetary Fund has marked down Eurozone growth by 0.1 percentage point this year and 0.3 next.  Brexit means global growth and thus corporate profits will be lower in the future, but lower interest rates mean investors are willing to apply a higher price-to-earnings ratio for those profits.  The key here is that investors don’t have to expect Armageddon to justify owning bonds at today’s yields: they only have to expect central banks to keep erring on the side of more stimulus to prevent Armageddon.  What could go wrong? Central banks may decide the world isn’t that scary, inflation has more life than thought and less abnormal monetary policy is in order. | The Wall Street Journal | 07/14/2016 | Greg Ip and Ian Talley |
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| Fed Inertia Looks Good for Now | The past few weeks have been very good for the Federal Reserve. Its Brexit worries proved prescient and its inaction on rates this year looks like a canny prediction of slowing growth and weaker currencies overseas.  The risk is that asset prices keep soaring, setting up markets for a crash when the Fed does move.  U.S. investors’ moment of post-Brexit fear has more than passed – witness the stock market’s new highs – but for the Fed it is still something to worry about. Unsure of how big a hit Britain will absorb and what sort of fallout the global economy will take, the central bank looks likely to keep rates on hold not just at its policy meeting later this month but at its September meeting as well. | The Wall Street Journal | 07/14/2016 | Justin Lahart |
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| A Welcome Surprise From the Economy | The good news keeps coming for the U.S. economy, catching many forecasters by surprise and justifying the recent stock-market rally.  One closely watched Wall Street indicator, the Citigroup U.S. Economic Surprise Index, is flashing newfound optimism just as the stock market has climbed to new highs. A fresh batch of data on Friday, including retail sales, consumer prices, industrial production and consumer sentiment, should confirm the positive trend. | The Wall Street Journal | 07/15/2016 | Steven Russolillo |
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| Haven Treasurys Harbor a Risk | …large gains in supposedly low-risk, long-term securities have taken government-bond prices sharply higher, raising concerns that they are due for a fall that could quickly push yields back up toward 2% in a replay of the “taper tantrum” of 2013. Treasury yields jumped in the summer of 2013, as investors fretted that the Federal Reserve would soon end its bond-purchase program.  On Thursday, the 10-year yield rose 0.06 percentage point to 1.530%, as prices fell.  At issue is the notion that low bond yields are signaling a dire outlook on inflation and economic growth that may be increasingly at odds with reality.  Federal-funds futures, a type of derivative used to bet on the possibility of rate rises, suggested a 38% chance of a rate increase by the end of the year, a sharp change from last month when traders were putting a 16% chance on a rate cut this year, according to CME Group.  Meanwhile, the so-called equity risk premium built into stocks remains elevated near its highest level since the 1950s, suggesting shareholders are being well paid for the risk that prices will tumble, according to Deutsche Bank calculations.  Others say the stock market’s climb looks equally fraught. But the fact that yields are still low could boost stocks, lowering the borrowing costs for companies, while making dividends more attractive. | The Wall Street Journal | 07/15/2016 | Ben Eisen |
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| What’s News | The S&P 500 reached a record for the fourth day in a row. The Dow, which also closed at another record, rose 134.29 to 18506.41. | The Wall Street Journal | 07/15/2016 |  |
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| Brexit Hit to U.S. Seen as Limited | The political divorce under way between the European Union and the United Kingdom might dent their economies, but forecasters expect the U.S. economy to shrug off a breakup.  Knocking the U.S. economy off course would “need a much bigger shock than Brexit,” said Nationwide Insurance chief economist David Berson.  The average forecast for U.S. economic growth in 2016 was unchanged at 2%, while growth in 2017 was shaded down to 2.2%, from 2.3% in the survey before the Brexit vote.  In response to the Brexit decision, the dollar strengthened and the British pound plunged. That would tend to raise the cost of U.S. exports, harming manufacturers, while reducing the price of commodities. Treasury rates moved to the lowest on record in part because global investors sought safety in the U.S.  While gross domestic product projections were little changed, the economists’ forecasts for oil prices and bond yields declined. | The Wall Street Journal | 07/15/2016 | Josh Zumbrun |
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| AAII Model Portfolios Update | The biggest market news-maker in the second quarter was, undoubtedly, the somewhat unexpected vote by U.K. citizens to leave the European Union (Brexit). While the long-term implications of this vote will not be known for years – and it could take up to two years for Britain and the EU to negotiate the exit – the short-term impact was a rise in economic uncertainty in Great Britain and Europe as well as heightened political uncertainty in Britain. Just as nature abhors a vacuum, so too do stock markets hate uncertainty.  Uncertainty also breeds volatility in the stock market, so it’s not surprising that there was a spike in market volatility following the Brexit vote. The CBOE Volatility Index (VIX) hit a high of 25.76 the day after the Brexit vote,… Furthermore, according to Bloomberg, global equity markets shed $3.6 trillion, or 5.7%, in market capitalization in the two trading days following the Brexit vote. However, by the end of the quarter, the global markets had rebounded to only being down 1.7% from pre-Brexit levels.  Sector performance in June also reflected the “risk off” shift by investors to higher-yielding sectors. As measured by the S&P Select Sector SPDR ETFs, the top sector in June was utilities, climbing 7.7%, followed by real estate with a 6.4% gain. With the likelihood of low interest rates pushed farther out, financial firms – which rely in part on higher interest rates for higher earnings – fared the worst in June: Financial services were down 5.4% for the month while financials lost 3.2%. | American Association of Individual Investors (AAII) | 07/15/2016 |  |
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| Market Commentary | This week, Germany became the first Eurozone country to sell 10-year debt with a negative yield – yet another milestone in the low global interest rate narrative. With the Bank of England signaling an August rate hike and the Bank of Japan now considering an acceleration of its government bond purchases, global bond yields are likely to remain under pressure, leaving investors hard-pressed in their search for income-producing assets.  The yield on the 10-year Treasury note continued to climb off its post-Brexit low this week. Even with its approximately 17 basis point climb, however, its current yield remains far lower than where most analysts believed it would be at the midway point of 2016.  In fact, interest rate movements have continued to surprise investors and analysts who have expected them to rise for years now. In five of the past six years, the actual yield on the 10-uear Treasury note has been below the median analyst forecasts. | Franklin Square Capital Partners | 07/15/2016 |  |
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| Bonds Aren’t as Awful As Some May Believe | With bonds producing near-record-low levels of income world-wide, there has never been a worse time to invest in government and corporate debt. You earn next to nothing now and, if interest rates finally rise, you will get clobbered later.  That is the conventional wisdom, and it is wrong.  With 10-year U.S. Treasury securities yielding just under 1.6%, a $10,000 investment produces a paltry $158 in annual interest income.  With bonds, as with all investments, what counts isn’t how much you earn but how much you keep.  By subtracting any increases in the Consumer Price Index from the nominal yield, you arrive at what is called the real yield, how much income you keep after inflation.  With the CPI up at a 1% annual rate, you are earning a real yield of 0.5%.  Let’s think back to 2011, when nominal 10-year Treasury yields were just under 2.8%, nearly double today’s rate. But inflation ran at 3% in 2011, so the real yield was negative.  The Barclays U.S. Aggregate Bond Index, a measure of the fixed-income market, would immediately go down in price by about 5.5% for each one-percentage-point rise in rates.  Still, many long-term bonds would lose 20% or more in only a one-point rate rise.  The generation-long bull market in bonds is probably drawing to a close. But high-quality bonds still are the safest way to counteract the risk of holding stocks,…  Even at today’s emaciated yields, bonds still are worth owning. | The Wall Street Journal | 07/16-17/2016 | Jason Zweig |
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| U.S. Economy Shows Signs of Pickup | Confident consumers and a stabilizing factory sector put the wind at the U.S. economy’s back as it entered the second half of the year.  A slew of reports Friday pointed to a healthy gain in retail sales, a pickup in industrial production and firming inflation last month. Overall growth appears to have rebounded solidly in the spring after a winter lull, and continued strength in household spending stands to propel the economy in the coming months. | The Wall Street Journal | 07/16-17/2016 | Ben Leubsdorf |
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| Rising Worries Cloud China GDP | Steady as ever is the Chinese economy. If only that were the reality.  China reported its economy grew 6.7% in the second quarter from a year earlier, the same rate as last quarter.  In truth, investors should assume the situation is on the more dire side of things.  Private-sector investment, for instance, is crumbling.  Also worrying is China’s property market, in which there are signs of cooling.  Beijing’s biggest worry, as always, is employment. The official jobless rates are mostly useless since they hardly ever change.  All this points to an economy tilting away from households, services and the private sector, which are supposed to be the economy’s drivers of growth. What Beijing delivered more of was state spending and debt.  The pressure for Beijing to do more to prop up growth only seems to increase. | The Wall Street Journal | 07/16-17/2016 | Alex Frangos |
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| What’s News | ♦ The Dow industrials rose for an eighth straight session, gaining 25.96 points to 18559.01. The S&P 500 and the Nasdaq fell. | The Wall Street Journal | 07/20/2016 |  |
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| Optimistic Fed Sees Rate Rise Before End of the Year | Federal Reserve officials are looking more confidently toward an interest-rate increase before the end of the year, possibly as soon as September, as financial markets have stabilized after Britain’s vote to leave the European Union and the economy shows signs of picking up.  Policy makers at the central bank are almost certain to leave rates unchanged when they meet July 26-27, according to their public comments and interviews with officials. | The Wall Street Journal | 07/20/2016 | Jon Hilsenrath and Michael S. Derby |
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| What’s News | Energy firms cut thousands of jobs in the second quarter despite many executives’ optimism that the oil-market crash is ending. | The Wall Street Journal | 07/23-24/2016 |  |
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| What’s News | U.S. stocks gained, sending the S&P 500 to a record. The Dow rose 53.62 points to 18570.85. | The Wall Street Journal | 07/23-24/2016 |  |
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| Why Emerging Markets Have the Wind at Their Backs | …the surprise success story of the year appears to be gathering momentum.  Emerging-market stocks are handily beating their developed peers, with the MSCI Emerging Markets index up 9.7% year to date, versus 2.6% for the MSCI World. Bonds are proving no slouch: J.P. Morgan’s EMBI Global sovereign-bond index has returned 12.5%;…  The performance in stocks marks a departure from near-continual disappointment since 2010.  The Latest International Monetary Fund forecasts brought down-grades for developed economies, but not for emerging markets:…  Of course, risks remain. But one worry – tighter monetary policy from the U.S. Federal Reserve – doesn’t look quite as scary as it did.  China remains the elephant in the room. Chinese growth is vital for emerging markets and the globe, and the imbalances that the economy has built up, including high corporate debt levels, continue to be a concern.  Emerging markets aren’t as haven – but they look like a compelling alternative. | The Wall Street Journal | 07/23-24/2016 | Richard Barley |
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| By the Numbers | Hot Streak – The S&P 500 has set 7 record closes in the last 10 trading days through Friday 07/22/16, after having set 0 record closes in the previous 285 trading days (source: BTN Research).  Less Than Last Year – Lenders foreclosed on 197,425 homes in the first half of 2016, a total that is down 5.7% from the 209,281 foreclosures completed during the first half of 2015 (source: Realty Trac). | Direxion Investments | 07/25/2016 |  |
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| As Yuan Weakens, Nations Take Note | …officials from some of China’s major trading rivals expressed concern over the yuan’s declines this year.  A weaker yuan can give Chinese exporters a leg up against those from other countries in global markets. | The Wall Street Journal | 07/25/2016 | Lingling Wei |
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| Brazil’s Economic Gloom Lightens | Latin America’s largest country remains mired in a brutal recession, but some leading economic indicators have ticked up slightly in recent weeks, or at least stopped deteriorating, raising prospect for a return to growth.  Brazil’s gross domestic product is projected to expand by about 1% next year, following deep back-to-back contractions of 3.8% in 2015 and an estimated 3.3% this year, according to a recent survey of 100 economists by the nation’s central bank.  The country’s economic woes remain daunting. Unemployment now tops 11%. Inflation reached a 12-year high of 10.7% in January,…  Financial markets have rallied. The country’s benchmark stocks index, the Ibovespa, has risen about 31% so far this year, after dropping 13% in 2015, while Brazil’s currency, the real, has strengthened about 22% against the dollar so far this year.  Still, Brazil’s recovery is fragile and its public accounts are precarious. | The Wall Street Journal | 07/25/2016 | Rogerio Jelmayer and Jeffrey T. Lewis |
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| What’s News | Energy shares led U.S. stocks lower as oil prices fell. The Dow shed 77.79 points to 18493.06. | The Wall Street Journal | 07/26/2016 |  |
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| Brexit Stocks Rebound Is Shock | The U.K.’s FTSE 25o index, which comprises more midsize, domestically focused companies than the FTSE 100, is down just 1.4% since the June 23 vote; it had plunged nearly 14% in two trading days right after.  The rally has a few possible causes. First, there is little evidence yet that Brexit has stalled the global economy, although one early postvote gauge of British economic activity was poor. Second, much of the pain has been absorbed by a fall in the pound, which tumbled quickly and has stayed low. It is down about 11% against the dollar.  David Riley, head of credit strategy at BlueBay Asset Management.  “Fundamentally, the lesson to be drawn from this year is that when you’ve had shocks – whether it’s China or the oil-price falls – you’ve got policy relief” from central banks, Mr. Riley said.  That relief has driven down government bond yields in developed countries and spilled over to emerging-market debt, corporate debt and dividend-paying stocks that offer investors reliable income streams.  Outside of the stock market and the riskier portions of the debt market, there are repeated signals of caution. Demand remains very high for haven assets: both government bonds and gold are trading higher than they were before the vote.  European investors have reasons to be wary. The first major economic indicator released following the Brexit vote pointed to a steep slow-down in the U.K. economy. | The Wall Street Journal | 07/26/2016 | Christopher Whittall |
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| Dollar Traders Calling Fed’s Bluff | Both this summer and last, officials were suggesting a rate rise by December, a change that typically leads the dollar higher.  While no two scenarios are the same and some investors anticipated more aggressive tightening a year ago than today, the data suggest traders aren’t as confident of a Fed rate increase and a dollar rally.  “The market is deeply skeptical, both about where rates will end up and the pace at which they get there,” said Alan Ruskin, global head of G-10 foreign-exchange strategy at Deutsche Bank.  The dollar is up 1.7% against a basket of peers over the past month and is at its highest levels since March, but remains down 1.6% for the year. | The Wall Street Journal | 07/27/2016 | Ira Iosebashvili and Chelsey Dulaney |
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| Economy Is Back Under Sway of Asset Prices | U.S. stocks have hit fresh highs. Real estate is quietly doing the same: Home prices are just 2% below the peak hit in 2007, while commercial property values have hit records.  The mere fact that asset prices are high doesn’t mean they are overvalued, or about to crash. But it is a sign of an economy structurally more vulnerable to sudden shifts of sentiment in the financial markets. Central banks have compounded that vulnerability by pumping up growth with low and even negative interest rates that have kept asset markets inflated.  A wwealth -intensive economy is by definition more at the mercy of asset-price swings.  The latest cycle differs from its predecessors in important ways. Tighter regulation has limited the contribution of leveraged financial instruments to asset inflation – but the contribution of interest rates has grown.  The fact that asset prices are so high doesn’t automatically mean a bubble is building. Low interest rates boost the current value of any income-producing asset. Stocks’ historically high price-to-earnings ratios can be justified if rates stay low.  …when valuations are so high, even justifiably so, it takes only a small shift in the appetite for risk, expectations of profits, or interest rates to trigger a major downdraft. | The Wall Street Journal | 07/28/2016 | Greg Ip |
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| What’s News | ♦ The Fed kept rates steady but opened the door to a rise later this year, possibly as early as September. | The Wall Street Journal | 07/28/2016 |  |
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| European Banks Walloped By Economic, Political Worries | A lagging economy, messy politics and negative interest rates have combined to brutalize European lenders, few more prominently than Deutsche Bank AG.  The German bank reported steep second-quarter falls in its investment-banking and securities-trading businesses, a potent sign of the bank’s acute struggles and of the deep malaise that has settled over Europe’s financial institutions.  Deutsche Bank’s revenue from securities sales and trading – the heart of its largest division and the core of a modern meg3% from a year earlier. | The Wall Street Journal | 07/28/2016 | Jenny Strasburg |
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| Market Commentary | Economic data was mixed this week, with lower-than-expected second quarter U.S. GDP figures capping off a relatively busy economic calendar. U.S. GDP grew at just 1.2% in the second quarter, as strong consumer spending was offset by a decline in business investment. While the headline number came in well below expectations, bright spots in the report included robust domestic consumption figures and a decline in inventories. Nevertheless, the weaker-than-expected report pushed thoughts of a potential rate hike even further from the minds of investors, with yields on U.S. government bonds declining across the curve and Fed fund futures showing diminished expectations of a rate hike later this year.  …with economy having grown at less than 2% for three straight quarters, a rate hike in September appears to be more of a long shot, with investors now placing a less-than-even chance of one coming in either November or December. | Franklin Square Capital Partners | 07/29/2016 |  |
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| Looking for Yield in All the Wrong Places | Fixed-income isn’t what it used to be. As the Wall Street Journal reports, the total amount of global government bonds that bear negative yields (meaning it costs you to have the government hold your money) has now climbed to a massive $13 trillion.  This figure is likely to grow as yields continue to plumb the depths of negative territory, giving global investors little choice but to seek income in other places.  For other investors, it is American municipal bonds, which still offer attractive, tax-free income, not to mention low volatility and low default rates.  Negative bond yields have also boosted demand for gold,…  The hunt for yield has also inevitably landed many income investors in dividend-paying stocks. According to Reuters, about 60 percent of S&P 500 Index stocks now offer dividend yields that exceed the 10-year Treasury yield, which hit an all-time low of 1.36 percent earlier this month.  Well, there is no questioning it now: Donald Trump and Hillary have both been anointed as our presidential candidates.  It has now come to my attention that no matter who wins, there could be an effort to break up the big banks, as both parties’ platforms include an interest in reviving the Glass-Steagall Act of 1933. The goal, of course, would be to prevent another financial crisis, but whether the banking act would actually work is up for debate. | U.S. Global Investors Advisor Alert | 07/29/2016 |  |
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| Municipal Updates | Municipals continued to startle in 2Q16, recording a respectable total return of 2.72% over the quarter and running up the six-month performance to 4.41%.  Oil: Fitch raised its base case oil price assumption for 2016 from $35 per barrel to $42 per barrel. The increase follows evidence that they market will come into balance in the second half of 2016, which has already been reflected in a year-to-date average price of $41/40 for Brent/WTI (West Texas Intermediate). Fitch does not believe that the rapid price recovery seen in the first half of 2016 will continue.  U.S. Banks: Key 2Q16 results/themes of the U.S. banks are as follows:  All but one of the systemically important banks, Wells Fargo, exceeded street expectations.  Home Prices: Home prices in 20 major U.S. metro areas rose 0.9% in May from the month prior on a non-seasonally-adjusted basis, according to the S&P/Case-Shiller home price index. | Advisors Asset Management (AAM) | 07/29/2016 |  |
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| What’s News | ♦ U.S. oil prices fell to near $41 a barrel and have tumbled close to bear-market territory since early June. | The Wall Street Journal | 07/29/2016 |  |
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| What’s News | ♦ Shell reported a 93% drop in profit and rocketing debt as it continued to struggle with the oil-price rout. | The Wall Street Journal | 07/29/2016 |  |
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| What’s News | ♦ The homeownership rate in the U.S. fell to 62.9% last quarter, the lowest level in more than 50 years. | The Wall Street Journal | 07/29/2016 |  |
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| U.S. in Weakest Recovery Since ‘49  *Expansion falls below expectations; business investment slowdown offsets consumer gain* | Declining business investment is hobbling an already-sluggish U.S. expansion, raising concerns about the economy’s durability…  Gross domestic product grew at a seasonally and inflation-adjusted annual rate of just 1.2% in the second quarter,…  Economic growth is now tracking at a 1% rate in 2016 – the weakest start to a year since 2011…  Consumer spending also remains strong. Personal consumption, which accounts for more than two-thirds of economic output, expanded at a 4.2% rate in the second quarter, the best gain since late 2014.  On the downside, the third straight quarter of reduced business investment, a large paring back of inventories and declining government spending cut into those gains. | The Wall Street Journal | 07/30-31/2016 | Eric Morath |
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| Oil Price Retreat Slams Producers | The world’s biggest oil companies posted losses or steep declines in profit for the second quarter, and now face a daunting remainder of the year as crude prices retreat to about $41 a barrel.  Exxon Mobil Corp. on Friday reported its quarterly profit fell 60% to the lowest level since 1999, while Chevron Corp. disclosed its biggest quarterly loss since 2001. The results capped a bad week for big Western oil companies:...  Oil is flirting with a bear-market territory once again, as U.S. prices have fallen nearly 20% since hitting a 52-week high of $551.23 on June 8. U.S. oil ended up 1.1% on Friday at $41.60 a barrel. | The Wall Street Journal | 07/30-31/2016 | Bradley Olson and Selina Williams |
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The 2010 Dodd-Frank law, passed in the wake of the financial crisis and designed to prevent another, is one of the most complex pieces of legislation ever. At more than 22,200 pages of rules, it is equivalent to roughly 15 copies of “War and Peace”. *The Wall Street Journal, May 31, 2016*

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