WASATCH
CAPITAL MANAGEMENT OF
RAYMOND JAMES®

AUGUST 2019

- - - - - -

INSIDE THIS NEWSLETTER

- **AUGUST – PUSHING ON A STRING COMMENTARY**
- **FALL LUNCH & LEARN SERIES**
- **WASATCH TEAM UPDATE**

Pushing on a String

Article by Mark Lazar

***The four most expensive words in the English language are, "This time it's different.*" Sir John Templeton**

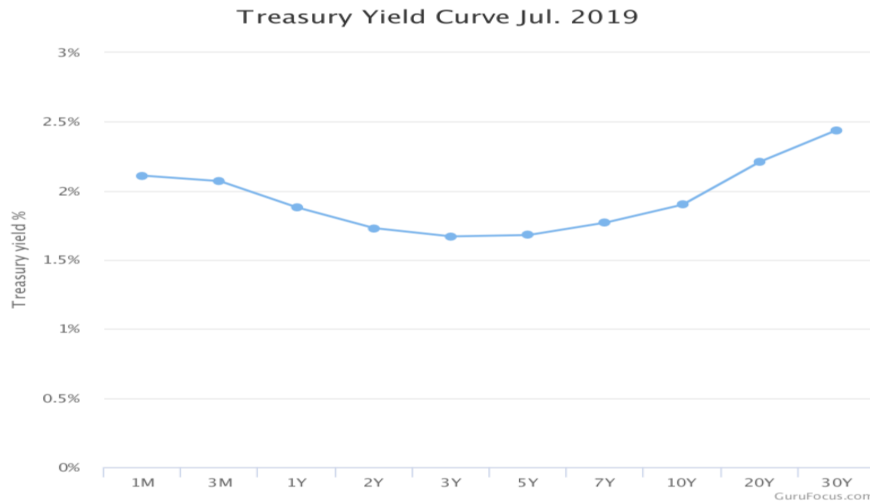
Despite ongoing uncertainty regarding US/China trade, Brexit, and an increasingly frosty climate with Russia and Iran, the capital markets have richly rewarded investors in 2019. After hitting record highs in July, the equity market sold off a bit due to the president's surprise announcement of additional tariffs on Chinese goods, which are scheduled to begin next month. Even so, it's been a banner year for investors.

With above average growth, strong labor markets, increasing productivity, rising wages, tame inflation, and a strong dollar, the US economy is the envy of the world. It isn't perfect, but then again it never is. However, most equity indices hit record highs this past month, the housing market is strong, household wealth is at an all-time high, and business and consumer confidence are both within a couple of points of their twenty-year high. What's not to like?

Item	Data point
S&P 500 Return YTD	18.32%
Bond Index Return YTD	7.14%
Foreign Index Return YTD	10.61%
Emerging Market Index YTD	3.93%
U.S Forecast GDP 2019[1]	2.60%
Unemployment Rate	3.70%

**All hyperlinked data as of 8/3/2019*
[1]*Kiplinger's, 5/27/2019*

But it's not all is sunshine and rainbows. The yield curve depicted below should be upward sloping, meaning investors are typically rewarded for owning longer term bonds. While the yield curve isn't fully inverted, it is clearly abnormal. Markets are forward-looking, so one possible explanation is the markets are pricing-in future rate cuts by the Federal Reserve. Assuming the long-end of the curve remains as is, a reduction of short-term rates would normalize the curve. But even if this comes to pass, interest rates would be far below historic averages.



Economists can glean much insight from the credit markets. Besides the yield curve, two other important data points are credit spreads and the 10-year Treasury yield. Credits spreads are merely the interest rate differential between a risky bond (i.e. corporate bond) and a risk-free bond (i.e. US Treasury bond). The difference in yield represents the market's required risk premium, or the additional yield a reasonable investor requires to assume credit risk, or the risk of possible default.

The long-term average credit spread appears to be around 2 ½%, and when spreads hit 3% or more, we tend to slip into a recession (the shaded areas). Today the spread is 2.17%, so the market is clearly not concerned about credit risk or pending economic contraction. We concur. Rising credit spreads have historically been the canary in the coal mine and a good forecaster of future economic woes. But at 2.17%, the canary seems to be chirping away with nary a care in the world.

In contrast to sanguine credit spreads, the 10-year Treasury yield, at 1.85% , is a source of consternation. The bellwether Treasury began the year at 2.66% and subsequently fell three quarters of a percent before the Fed dropped the benchmark federal funds rate by .25% at the end of July. While not a perfect predictor, historically, economic growth tends to be marginally higher than the 10-year Treasury, and inflation tends to be slightly less. Meaning as Treasury yields fall, so do future economic growth prospects.

It is with Sir John Templeton's sage warning ringing in our ears that we attempt to explain the current anomalous yield curve. There are currently a number of countries issuing debt today with negative yields out to ten years. The list includes; Switzerland, Germany, Netherlands, France, Japan, Finland, Sweden, Belgium, and Denmark. The current total of outstanding negative yielding sovereign debt is $14 trillion. We think this is very bad monetary policy, causing both malinvestment and unforeseen consequences. But it also explains why foreign investors are clamoring to US Treasury bonds; They can either park their money in a 10-year Swiss bond at roughly -1% or a US Treasury bond at 1.85%? Excluding currency values, over ten years the difference is roughly 30%. Gee, let me think. I'll take the US Treasury for one hundred, Alex.

Reading the economic tea leaves is an imperfect science at best. However, we believe the US economy is currently on very sound footing and there are no storm clouds on the horizon. And while a bit more tepid, the global economy doesn't appear to be in imminent danger of contracting any time soon. But negative interest rates are not the panacea for what ails Europe and Japan. Rather, the medicine they need are pro-growth fiscal policies, that reward innovation, capital, entrepreneurship, hard work, and risk-taking. Low interest rates may provide some initial economic stimulus, but eventually it's like pushing on a string.

JOIN US FOR… FINANCIAL LUNCH & LEARNS

Complimentary for you and a guest

2019 Fall Lunch & Learn Series

- **TUESDAY, SEPTEMBER 17TH**
  BRAIN WORKS: STAYING MENTALLY SHARP AS WE AGE
- **TUESDAY, OCTOBER 15TH**
  CASH FLOW GENERATION AND INCOME PRODUCING INVESTMENTS
- **THURSDAY, NOVEMBER 7TH**
  GUEST SPEAKER, DETAILS TO FOLLOW

RSVP

MORGAN.IRVIN@RAYMONDJAMES.COM
CALL/ TEXT 518-637-5982

Lunch & Learns are complimentary for you and a guest

Forty five minutes is all it takes to expand your horizons with our educational lunch series. Learn something new, ask a question that has been on your mind, or simply come and sit in the back. At Wasatch Capital Management, we are passionate about financial literacy.

You see our job isn't just to guide you to the right decision, it's to help inspire the right questions, the right ideas, and encourage a lifetime of financial stewardship so you can live the life you deserve.

Come join us in a no pressure, casual environment and learn more.

WASATCH
CAPITAL MANAGEMENT OF
RAYMOND JAMES®

WASATCH CAPITAL MANAGEMENT OF RAYMOND JAMES
2750 E COTTONWOOD PARKWAY, SUITE 520, COTTONWOOD HEIGHTS, UT 84121
385-275-3600 | MORGAN.IRVIN@RAYMONDJAMES.COM | www.wasatchcapitalmanagement.com

Raymond James & Associates Inc., member NYSE/SIPC

Wasatch Team Updates

Mark

Mark and Savina Mountain biking on the Hiawatha Trail outside of the home in Hayden, Idaho with some friends.

Morgan

Each year Raymond James helps support and sponsor the Utah Symphony Utah Opera Deer Valley Concert Series. This year, Morgan and her guest weathered the stormy to see a Symphonic Space Celebration.

John

John and Shawn at a recent summer concert at Red Butte Gardens

Melissa

Melissa out on a mountain bike ride with her golden doodle on the Park City trails.

Mark Lazar, CFP®, MBA, Vice President- Investments | 385-275-3609

Morgan Irvin, CFP®, Financial Advisor | 385-275-3606

John Bergerson, CFA®, MBA, Investment Portfolio Associate | 385-275-3608

Melissa Martinez, Operations Specialist & Service Associate | 385-275-3594

Elisha Rhodes, Client Service Associate | 385-275-3600

2750 E Cottonwood Parkway, Suite 520, Cottonwood Heights, UT 84121

1389 Center Drive, Suite 200, Park City, UT 84098

Views expressed in this newsletter are the current opinion of the author, but not necessarily those of Raymond James & Associates. The author's opinions are subject to change without notice. Information contained in this report was received from sources believed to be reliable, but accuracy is not guaranteed. Past performance is not indicative of future results. There is no assurance these trends will continue or that forecasts mentioned will occur. Investing always involves risk and you may incur a profit or loss. No investment strategy can guarantee success. The S&P 500 is an unmanaged index of 500 widely held stocks. The Dow Jones Industrial Average is an unmanaged index of 30 widely held securities. It is not possible to invest directly in an index. Companies engaged in business related to a specific sector are subject to fierce competition and their products and services may be subject to rapid obsolescence. There are additional risks associated with investing in an individual sector, including limited diversification. Gross Domestic Product (GDP) is the annual market value of all goods and services produced domestically by the US. The information in this article is general in nature, is not a complete statement of all information necessary for making an investment decision, and is not a recommendation or a solicitation to buy or sell any security. Investments and strategies mentioned may not be suitable for all investors. The MSCI EAFE (Europe, Australasia, and Far East) is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the United States & Canada. The MSCI Emerging Markets is designed to measure equity market performance in 25 emerging market indices. The index's three largest industries are materials, energy, and banks. The Barclays US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. International investing involves special risks, including currency fluctuations, differing financial accounting standards, and possible political and economic volatility. Links are being provided for information purposes only. Raymond James is not affiliated with and does not endorse, authorize or sponsor any of the listed websites or their respective sponsors. Raymond James is not responsible for the content of any website or the collection or use of information regarding any website's users and/or members. Raymond James is not affiliated with any of the organizations listed above. Neither Raymond James Financial Services no any Raymond James Financial Advisor renders advice on tax issues, these matters should be discussed with the appropriate professional. Investing in commodities is generally considered speculative because of the significant potential for investment loss. Their markets are likely to be volatile and there may be sharp price fluctuations even during periods when prices overall are rising. Gold is subject to the special risks associated with investing in precious metals, including but not limited to: price may be subject to wide fluctuation; the market is relatively limited; the sources are concentrated in countries that have the potential for instability; and the market is unregulated. Be advised that investments in real estate and in REITs have various risks, including possible lack of liquidity and devaluation based on adverse economic and regulatory changes. Additionally, investments in REIT's will fluctuate with the value of the underlying properties, and the price at redemption may be more or less than the original price paid. Sector investments are companies engaged in business related to a specific sector. They are subject to fierce competition and their products and services may be subject to rapid obsolescence. There are additional risks associated with investing in an individual sector, including limited diversification.