KALORAMA Wealth Strategies
A Beautiful View To Your Financial Future℠

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Third-Quarter 2019 Market Review ~ Interest Rates Plummet

October 2019 - Low and negative interest rates around the globe dragged down bond yields in the U.S. during the third quarter, leading to across-the-board gains for bonds. In August, with central banks unexpectedly cutting rates and trade deliberations simmering, yields on long-term U.S. Treasuries tumbled by more than one-half percent (50 basis points). The 10-year U.S. Treasury note sank below 1.50% to levels not seen since 2016, while the 30-year U.S. Treasury bond fell below 2.0% for the first time ever. At the end of August, the 10-year note and 30-year bond were yielding 1.50% and 1.98%, respectively.

At quarter end, the yield on the 10-year U.S. Treasury note was 1.67%, sinking 34 and 101 basis points for the third quarter and first nine months of 2019, respectively. The 30-year Treasury bond closed at 2.12%, dropping 41 and 80 basis points for the third quarter and first nine months of 2019, respectively, while the three-month Treasury bill finished at 1.89%, shedding 21 and 57 basis points for the same periods, respectively.

All major bond sectors moved ahead during the quarter, advancing from 1.3% to 2.6%. For the first nine months of 2019, bond sectors swelled from nearly 7.0% (Municipals) to more than 11.0% (U.S. Corporate High Yield).

Stocks contended with trade tensions, recession concerns, and political drama during the third quarter. July marked the longest economic expansion ever at 121 months from the Great Recession bottom of June 2009 (the second longest was the 120-month period from March 1991 to March 2001). Stocks followed suit with all major U.S. market barometers setting record highs throughout the month. August threw a "tariff tantrum" with China trade tensions escalating. Stocks were whipsawed by every apparent setback and breakthrough in the showdown, resulting in one-day sell-offs of approximately 3.0%, the worst days of 2019 thus far. Stocks rebounded in September as trade tensions eased.

For the third quarter, the Dow Jones Industrial average rose 1.2%, the Standard & Poor's 500 (total return) added 1.7%, while the NASDAQ Composite index slid 1.2%. For the first nine months of the year, the Dow Jones climbed 15.4%, the S&P 500 (total return) surged 20.6%, and the NASDAQ jumped 19.2%. It was the best first nine months for stocks since 1997.

The Federal Reserve cut interest rates by a quarter percent twice during the third quarter, resulting in a range for the federal funds rate of 1.75% to 2.0%. July's move was the first reduction in rates since 2008 when the Fed moved to near zero during the financial crisis. The Fed cited global developments related to weak growth and trade uncertainties, as well as muted inflation, in its decision to lower rates.

Below are rates of return for selected market indices for the third quarter and first nine months of 2019, and the three, five, and 10-year compound annual returns as of December 31, 2018.

Equity (Stock) Indices	3Q:2019	YTD-2019	3-Year	5-Year	10-Year
Domestic					
Russell 1000 - Large Cap	1.42%	20.53%	9.09%	8.21%	13.28%
Russell Midcap	0.48%	21.93%	7.04%	6.26%	14.03%
Russell 2000 - Small Cap	-2.40%	14.18%	7.36%	4.41%	11.97%
Real Estate (FTSE NAREIT Equity REITs)	7.80%	26.96%	2.89%	7.90%	12.12%
Commodity (Dow Jones Commodity Index)	-2.12%	4.66%	2.50%	-8.17%	-1.69%
International					
MSCI EAFE Developed Large Cap	-1.00%	13.35%	3.38%	1.00%	6.81%
MSCI EAFE Developed Small Cap	-0.37%	12.47%	4.11%	3.42%	10.88%
MSCI Emerging Markets	-4.11%	6.22%	9.65%	2.03%	8.39%
Global - MSCI All Country IMI	-0.05%	16.37%	7.06%	4.72%	10.32%
Fixed-Income (Bond) Indices					
Bloomberg Barclays					
Global Aggregate - Unhedged	0.71%	6.32%	2.70%	1.08%	2.74%
Global Aggregate - Hedged	2.59%	8.75%	2.91%	3.34%	NA
U.S. Aggregate	2.27%	8.52%	2.06%	2.52%	3.48%
U.S. Treasury TIPs	1.35%	7.58%	2.11%	1.69%	4.37%
U.S. Corporate High Yield	1.34%	11.41%	7.23%	3.83%	10.72%
Municipal	1.58%	6.75%	2.30%	3.82%	5.16%
International Emerging Markets	1.28%	10.79%	5.05%	4.23%	9.05%

Source: ftserussell.com, reit.com, us.spindices.com, msci.com, bloomberg.com