The Tweet Effect

This just in . . .

Drone strikes on a Saudi Arabian oil facility over the weekend sidelined more than half of the kingdom's output and removed about 5% of the global oil supply from the market. It is the biggest one-day oil disruption in history.

Oil prices spiked 18% before retreating (currently up 10%) after President Trump said on Sunday night that he authorized the use of oil from the United States' emergency oil supply. Saudi officials have also stated that production can be restored to normal levels by the end of the week.

American officials have asserted that Iran is to blame for this attack. Maybe they are, but blame is not the important issue here. What is significant to us is that unexpected and unpredictable military strikes such as this are likely to continue throughout the world . . . and probably become more frequent.

Over the past decade the United States has become energy independent. In addition, the Cold War ended nearly three decades ago, and thus the U.S. no longer requires the multitude of worldwide allies against Russia that it previously did. Because the United States has become energy independent and because it no longer requires all those allies for the same reasons, it doesn't need to patrol the world's oceans as it used to. With a reduced U.S. military presence, traditional "hot spots" can now fester and occasionally explode.

And they will.

Stay tuned. . .

August Recap:

We've said repeatedly that the president of the United States gets way too much credit when things are good, and way too much blame when things are not so good. There are, in fact, much larger geopolitical, demographic, and economic forces that have a greater effect on the economy and markets than any sitting president. And by and large, we still stick by that contention . . . certainly for the long run.

But for the short run? Wow! We've never seen a president that rocks the markets (both up and down) on a daily basis like this one does.

BCWM
PROVIDING PEACE OF MIND

Portfolio Management
Richard W. Boyer, CFP®, CFA
Laura Carley, CFP®, CFA
Cory Bloodgood, CFA

BCWM, LLC
14221 Metcalf Avenue
Suite 201
Overland Park, KS 66223

Phone: 913-685-2300
Email: info@bcwm.com

August was a Chinese-trade-war-Donald-Trump-tweeting-roller-coaster month. Of the twenty-two trading days in August, the stock market moved over 1% (up ***or*** down) in eleven of them. Of those eleven days, three of them were ***down*** close to 3%! Those are not normal days! J.P. Morgan even created an index to track the impact of the president's tweets on the interest rate market. We think that's a little contrived and silly but hey, apparently someone at J.P. Morgan was having a slow day.

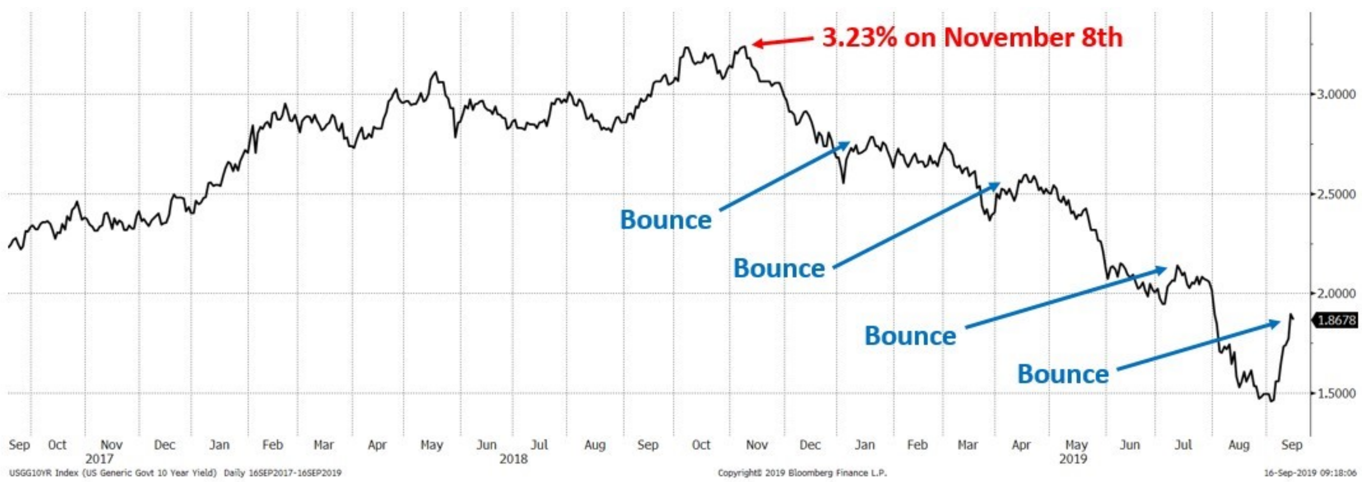
Ironically, after all that ridiculous volatility, the S&P 500 finally finished down only 1.58% for the month.

Of course, all of the losses in stocks were more than offset by gains in bonds, as August proved to be the best month for the bond market in years.

Frequent tweeting about the probability of a trade war with China (and the resulting economic slowdown) continued to have a significant effect on interest rates, causing them to decline even further, with the U.S. 10-year Treasury bond plummeting to 1.49%, down from 2.01% at the end of July.

While we have been tooting the "lower interest rates" horn for several years, even we think a near-term bounce would not be unlikely after that colossal plunge in interest rates. And it has not surprised us that this is exactly what happened. In just the first eleven trading days of September, rates have bounced back to 1.86%.

That doesn't change our outlook on interest rates one bit. The chart below shows the interest rate on the 10-year U.S. Treasury bond for the past two years, where you can see that less than one year ago it was 3.23%!



As interest rates declined over the next ten months, they occasionally bounced upward. And every time rates bounced up, they eventually continued their downward path. So . . . in our opinion, you don't need to panic and re-finance your mortgage because you think interest rates are now going nowhere but up.

Just relax.

Around the world over $17 trillion of bonds are trading with negative interest rates. We talked about this last month (Your Mattress or Negative Interest Rates) and the number has continued to grow. Maybe the bump up in U.S. rates this month will stem the tide of bonds falling into the negative-interest-rate territory.