

Tricky Transition

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Though equity investors initially cheered lower interest rates as bond investors lament a race to the bottom in yield, the mood has suddenly turned. For the first time in ten years, the Federal Reserve cut interest rates by 25 bps, reshaping the economic and investment landscape. On top of the Fed's "insurance policy" against a weakening global economy, the Trump Administration announced a new 10% tariff on \$300 billion of Chinese imports. Tariffs trumped rates as the markets recognized the dangers of a more contentious trade war with China, raising the risk that the U.S. economy could slip into a recession. Meanwhile, a more insidious threat to the financial markets is the proliferation of sub-zero yields on corporate and sovereign debt. For the past decade, central banks have sought to spur inflation, yet the metric has remained stubbornly low. As a result, the quest for yield has forced investors to seek strategies with greater hidden risks. Proceed with caution during this tricky transition!



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