# SOUND INCOME STRATEGIES

## Febuary 2016

**Markets:**

| **Index** | **Month / Year to Date** |
|---|---|
| **DOW Jones** | **+0.3% / -5.2%** |
| **S&P 500** | **-0.4% / -5.4%** |
| **NASDAQ** | **-1.21% / -8.9%** |

**10yr Treasury 1.72% current yield / 1.92% yield in January**

With the Chinese markets continuing their downward spiral for February, the People's Bank of China has decided to lower the reserve ratio for their banks. This means the Chinese government has decided to "leverage" their way out of a falling equity market and slowing economy. Probably not a good idea for longer-term stability, but I'm sure they've been learning from our Federal Reserve how to increase debt levels so you don't have to face the music.

Oil has continued the fall, dipping down to $28.83 per barrel and closing the month down -4.3% to $33.75 per barrel after Saudi Arabia & Russia agreed to limit their output/supply levels. China and commodity prices continue leading headlines in our financial news and still make investors nervous because once you start down the deflation path, it is very difficult for a central bank to stop the downward spiral. The DOW Jones Industrial Average happened to increase, unlike the S&P and NASDAQ. This is primarily because of the performance of DuPont (DD), which is up big for February after a horrible January performance, due to additional merger news with the DOW, but overall, equity markets are down for the fourth straight month!

On CNBC, you may have heard David Scranton mention, right before the Federal Reserve meeting on December 16th, that if they increase rates by ¼ of a point, we would see a "flattening" of the yield curve. Needless to say, the curve flattened, and as the Fed increased ¼ of a percent, the 10yr treasuries went from a 2.26% yield on December 16th and finished in February at 1.73%. So the spread difference between the Fed Funds Rate and the 10yr Treasury was roughly 2.25%, and now stands at 1.5%, possibly closing the gap between a normal upward sloping curve and a flattening yield curve. Why does this matter, you might ask? Well, a "flat" yield curve has a good history of predicting a slowing economy and usually a recession once the yield curve starts to flatten. A flat curve happens when short-term rates start to move equal to the 10yr Treasury Rate, and that usually means "hold on to your hat" because it's going to get real bumpy for the economy and financial markets. We aren't quite at a flat curve as of yet, but if the Fed decides to remain on their stated course of increasing short-term rates, then we could see bonds become expensive and stocks sell off materially.

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