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## LIBOR Surge May Rule Out September Fed Rate Hike

Weekly Update – August 29, 2016

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After rallying for weeks, the major indexes fell last week ahead of key remarks by Federal Reserve officials and turbulence in money markets.<sup>1</sup> For the week, the S&P 500 lost 0.68%, the Dow fell 0.85%, the NASDAQ dropped 0.37%, while the MSCI EAFE gained 0.16%.<sup>2</sup>

Even as the Fed has kept interest rates flat, an unexpected surge in short-term interest rates triggered by an industry rule change is potentially doing some of the Fed's work for it. If you ever tune in to the financial news, you may have heard the term LIBOR (pronounced LIE-bor) mentioned in reference to money markets (what we call the trade of short-term loans between banks and other financial institutions).

LIBOR, the London Interbank Offered Rate, is a benchmark used for a vast range of debt, including mortgages and corporate loans. Recently, the three-month LIBOR (the rate charged for lending dollars for three months) has reached multi-year highs (rising more than 30% since this June), tightening credit conditions without any action by the Fed.<sup>3</sup>

**Why should you care about LIBOR?** Well, since you're not a bank, LIBOR may not directly impact your life. However, since it's tied to an estimated \$300 trillion in global financial securities like corporate bonds and mortgages, it definitely affects your personal bottom line.<sup>4</sup>

Even when the Fed holds rates steady, other events can impact the interest rates we see. Restructuring related to a money market rule change is causing interest rates to rise, making it more expensive for institutions to lend to each other (and to borrowers like us).

In terms of overall impact, LIBOR's recent spike has the equivalent impact of a small (25 basis point) rate hike by the Fed.<sup>5</sup> While there's no telling how long the surge in rates will last, some analysts think that the money market turbulence will be enough to rule out an interest rate increase when the Fed meets in September.<sup>6</sup>

However, there are also larger stability issues the Fed has to consider. Even if a short-term rise in interest rates reduces the immediate need to raise rates, the Fed is charged with maintaining long-term stability, and may choose to act anyway.

The latest data on economic growth proved to be a disappointment. The second

estimate of Gross Domestic Product growth showed that the economy grew a tepid 1.1%, trimming the previous estimate of 1.2%. While consumer spending was revised upward, businesses pulled back their spending significantly, putting the brakes on growth.<sup>7</sup> Will the disappointing economic growth stave off a September rate increase? Probably, but we can't be certain.

Investors are reacting predictably to the uncertainty by holding back and waiting for more information. When trading volume is low, even minor headlines can have an outsized effect on market movements. With the next Federal Open Market Committee Meeting three weeks away, we expect to see additional volatility as investors consider the odds of a new rate hike.

### ECONOMIC CALENDAR:

**Monday:** Personal Income and Outlays, Dallas Fed Manufacturing Survey

**Tuesday:** S&P Case-Shiller HPI, Consumer Confidence

**Wednesday:** ADP Employment Report, Chicago PMI, Pending Home Sales Index, EIA Petroleum Status Report

**Thursday:** Motor Vehicle Sales, Jobless Claims, Productivity and Costs, PMI Manufacturing Index, ISM Manufacturing Index, Construction Spending

**Friday:** Employment Situation, International Trade, Factory Orders

Data as of 8/26/2016	1-Week	Since 1/1/16	1-Year	5-Year	10-Year
Standard & Poor's 500	-0.68%	6.12%	11.78%	16.86%	6.75%
DOW	-0.85%	5.57%	12.96%	12.60%	6.30%
NASDAQ	-0.37%	4.22%	11.10%	22.09%	14.38%
U.S. Corporate Bond Index	-0.10%	8.47%	8.83%	5.59%	7.70%
International	0.16%	-0.81%	-0.22%	3.19%	-0.88%
Data as of 8/26/2016	1 mo.	6 mo.	1 yr.	5 yr.	10 yr.
Treasury Yields (CMT)	0.28%	0.47%	0.62%	1.23%	1.62%

Notes: All index returns exclude reinvested dividends, and the 5-year and 10-year returns are annualized. Sources: Yahoo! Finance, S&P Dow Jones Indices and Treasury.gov. International performance is represented by the MSCI EAFE Index. Corporate bond performance is represented by the SPUSCIG. Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly.

### HEADLINES:

**New home sales skyrocket.** Sales of new single-family homes rose unexpectedly in July, reaching their highest level in almost nine years as demand for houses rose.<sup>8</sup>

**Existing home sales tumble.** Home resales fell last month for the first time since February as shrinking inventory limited buyer activity. However, as wages and home prices rise, resales will likely pick up later this year.<sup>9</sup>

**Durable goods orders bounce in July.** Orders for long-lasting factory goods rebounded last month, indicating the manufacturing sector may be strengthening.<sup>10</sup>

**Consumer sentiment** slips in August. A gauge of how Americans feel about the economy and their financial prospects fell. A drop in optimism could foretell weaker consumer spending this quarter.<sup>11</sup>



*“You can never cross the ocean until you have the courage to lose sight of the shore.”*

– André Gide



### **Mocha Nut Brownies**



*Impress coffee lovers with these delightful made-from-scratch brownies.*

Makes 16 brownies

#### **Ingredients:**

Butter wrapper or nonstick oil spray

Parchment paper

1/2 cup (1 stick) unsalted butter, room temperature

4 ounces semisweet or bittersweet (not unsweetened) baking chocolate, coarsely chopped

1 tablespoon instant espresso or coffee powder

2 large eggs

1 cup granulated white sugar

3/4 cup all-purpose flour

1/4 teaspoon Kosher salt  
1/2 cup chopped walnuts or pecans  
1/2 cup semisweet chocolate chips

**Directions:**

1. Preheat your oven to 350° F.
2. Grease the bottom and sides of an 8-inch baking pan with the leftover butter wrapper or nonstick vegetable spray and line the pan with parchment paper. Grease the parchment paper with additional butter or vegetable oil spray.
3. Create a double boiler by filling a small saucepan with 1-2 inches of water and placing a metal bowl inside the pot, ensuring the bottom of the bowl doesn't touch the water. Bring the water to a boil and use the bowl to melt the chopped chocolate with the butter and coffee powder, stirring steadily to incorporate the ingredients. Once the chocolate mixture is fully melted, remove from heat and set aside.
4. Beat together the sugar and eggs using a whisk or handheld mixer. When the mixture is fluffy and light-colored, reduce the mixer's speed and carefully mix in the melted chocolate, flour, and salt. Fold in the chopped nuts and chocolate chips and gently mix until everything is incorporated.
5. Pour the batter into the greased pan and spread with a spatula until even and smooth. Bake at 350° F for about 30 minutes until the center is set and a toothpick comes out clean. If you like your brownies to have a fudge-like texture, take them out a couple of minutes sooner.
6. Once the brownies are cool, run a knife around the edges of the pan, flip them out using the parchment paper and cut into squares. Serve warm with whipped cream or coffee ice cream. Store in a tightly sealed box for up to four days.

Recipe adapted from Susan Sugarman | RealSimple.com<sup>12</sup>



**Make a Tax Goof? Here's How to Amend Your Return**

It's very common to make a mistake when filling out tax forms. Fortunately, the IRS makes it easy to file an amended tax return. Here's what you need to know:

- The IRS says that you should amend your federal tax return if you need to correct your filing status, the number of dependents you claimed, or your total income. Deciding to claim additional deductions or tax credits that you left off of your original return also calls for an amendment.

- In some cases, you may not need to file an amended return. The IRS usually catches and corrects simple math mistakes when processing your return, so realizing you made a simple arithmetic error shouldn't be a cause for worry. The IRS will also mail a request for any missing information they may need to process your original return.
- If you need to file an amendment, you'll need to use Form 1040X and indicate which year's return you're amending. Unfortunately, there's no way to complete this form online, so you'll have to fill it out in paper form. If you need to amend multiple returns, you need to fill out multiple 1040X forms. If you have any questions or concerns about filing an amendment, it may be a good idea to consult a qualified tax professional.
- If you end up owing more in taxes, be sure to file and pay as soon as possible to limit the interest and penalties you owe.

For more information about amending returns, contact a local tax professional or find form 1040X on IRS.gov.

Tip courtesy of IRS.gov<sup>13</sup>



### Conquer the Uphill Lie

Uphill shots can be tough because they demand extra control and balance of the clubface as you fight gravity. Playing uphill increases the “effective loft” of the club, giving the ball a steeper, shorter flight. When playing an uphill lie, consider choosing one club more than you normally would.

Set up to the ball by keeping your shoulders square and parallel and putting more weight on your back foot. To encourage the efficient transfer of weight through the shot, shift your front foot outward slightly. Take several practice swings, playing the ball as you normally would in your stance, making small adjustments in your foot placement and movement until you're ready for the real deal.

Tip courtesy of Lana Ortega, PGA | Golf Tips Mag<sup>14</sup>



### Eat These Foods to Beat Wrinkles

Wrinkles naturally form as the skin loses elasticity with age or gets damaged by the sun. Adding these foods to your diet can help ward off wrinkles and protect against skin damage:

- Sweet potatoes are loaded with beta-carotene, Vitamin A, copper, and Vitamin C, shown to protect the skin and boost collagen production.
- Flaxseeds contain important Omega-3 fatty acids that help fill out your skin (and reduce the appearance of wrinkles) by attracting water molecules.
- Pomegranates contain several anti-oxidants that can help protect the skin and potentially reduce the risk of skin cancer.

Tip courtesy of AARP<sup>15</sup>



### **Calculate Your Carbon Footprint**

There are many ways to reduce your household's impact on the world, but it's also important to understand just how much your lifestyle is affecting the environment. The Nature Conservancy offers a free online carbon footprint calculator to help you estimate the impact of your diet, travel, home, and recycling on the environment.

You can find the tool at: <http://www.nature.org/greenliving/carboncalculator/>

Tip courtesy of The Nature Conservancy<sup>16</sup>

### ***Share the Wealth of Knowledge!***

*Please share this market update with family, friends or colleagues.  
We love being introduced!*

Securities, advisory services, and insurance products are offered through Investment Centers of America, Inc. (ICA), member FINRA, SIPC, a Registered Investment Advisor, and affiliated insurance agencies. ICA and iWealth are separate companies.

Investing involves risk including the potential loss of principal. No investment strategy can guarantee a profit or protect against loss in periods of declining values.

Diversification does not guarantee profit nor is it guaranteed to protect assets.

International investing involves special risks such as currency fluctuation and political instability and may not be suitable for all investors.

The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general.

The Dow Jones Industrial Average is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the NASDAQ. The DJIA was invented by Charles Dow back in 1896.

The Nasdaq Composite is an index of the common stocks and similar securities listed on the NASDAQ stock market and is considered a broad indicator of the performance of stocks of technology companies and growth companies.

The MSCI EAFE Index was created by Morgan Stanley Capital International (MSCI) that serves as a benchmark of the performance in major international equity markets as represented by 21 major MSCI indices from Europe, Australia and Southeast Asia.

The S&P U.S. Investment Grade Corporate Bond Index contains U.S.- and foreign-issued investment-grade corporate bonds denominated in U.S. dollars.

The SPUSCIG launched on April 09, 2013. All information for an index prior to its Launch Date is back-tested, based on the methodology that was in effect on the Launch Date. Back-tested performance, which is hypothetical and not actual performance, is subject to inherent limitations because it reflects application of an Index methodology and selection of index constituents in hindsight. No theoretical approach can take into account all of the factors in the markets in general and the impact of decisions that might have been made during the actual operation of an index. Actual returns may differ from, and be lower than, back-tested returns.

The S&P/Case-Shiller Home Price Indices are the leading measures of U.S. residential real estate prices, tracking changes in the value of residential real estate. The index is made up of measures of real estate prices in 20 cities and weighted to produce the index.

The 10-year Treasury Note represents debt owed by the United States Treasury to the public. Since the U.S. Government is seen as a risk-free borrower, investors use the 10-year Treasury Note as a benchmark for the long-term bond market.

Opinions expressed are subject to change without notice and are not intended as investment advice or to predict future performance.

Past performance does not guarantee future results.

You cannot invest directly in an index.

Consult your financial professional before making any investment decision.

Fixed income investments are subject to various risks including changes in interest rates, credit quality, inflation risk, market valuations, prepayments, corporate events, tax ramifications and other factors.

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<sup>1</sup> <http://www.cnbc.com/2016/08/26/us-markets.html>

<sup>2</sup>

<http://finance.yahoo.com/quote/%5EGSPC/history?period1=1471586400&period2=1472191200&interval=1d&filter=history&frequency=1d>

<http://finance.yahoo.com/quote/%5EDJI/history?period1=1471586400&period2=1472191200&interval=1d&filter=history&frequency=1d>

<http://finance.yahoo.com/quote/%5EIXIC/history?period1=1471586400&period2=1472191200&interval=1d&filter=history&frequency=1d>

<https://www.msci.com/end-of-day-data-search>

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<sup>3</sup> <http://www.marketwatch.com/story/money-markets-deliver-stealth-tightening-even-as-fed-stands-pat-2016-08-19>

<http://www.reuters.com/article/usa-moneymarkets-idUSL1N1B70CG>

<sup>4</sup> <http://www.federalreserve.gov/newsevents/speech/powell20160621a.htm>

<sup>5</sup> <http://www.marketwatch.com/story/money-markets-deliver-stealth-tightening-even-as-fed-stands-pat-2016-08-19>

<sup>6</sup> <http://www.marketwatch.com/story/money-markets-deliver-stealth-tightening-even-as-fed-stands-pat-2016-08-19>

<sup>7</sup> <http://www.cnbc.com/2016/08/26/us-q2-gross-domestic-product.html>

<sup>8</sup> <http://www.foxbusiness.com/markets/2016/08/23/july-new-home-sales-leap-12-4.html>

<sup>9</sup> <http://www.foxbusiness.com/markets/2016/08/24/existing-home-sales-fall-3-2-in-july.html>

<sup>10</sup> <http://www.foxbusiness.com/markets/2016/08/25/durable-goods-orders-rebound-in-july.html>

<sup>11</sup> <http://www.foxbusiness.com/markets/2016/08/26/consumer-sentiment-slips-in-august.html>

<sup>12</sup> <http://www.realsimple.com/food-recipes/browse-all-recipes/mocha-walnut-brownies-0000000025802/index.html>

<sup>13</sup> <https://www.irs.gov/filing/individuals/amended-returns-form-1040-x/amended-return-1040x-tips>

<https://www.irs.gov/filing/individuals/amended-returns-form-1040-x/amended-return-frequently-asked-questions>

<sup>14</sup> <http://www.golftipsmag.com/component/zine/article/48-hill-rides.html#.VAwVIWSSxsl>

<sup>15</sup> <http://www.aarp.org/health/healthy-living/info-05-2013/foods-to-protect-summer-skin-photos.html?intcmp=AE-HEA-RELBOX#slide6>

<http://www.nature.org/greenliving/carboncalculator/><sup>16</sup>