AMJ Financial Wealth Management
Weekly Market Commentary
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The Markets

An unwelcome surprise.

Last week, Fitch Ratings startled markets by lowering the credit rating of United States Treasuries from AAA to AA+. It was the second rating agency to downgrade U.S. Treasuries; Standard & Poor's cut its rating to AA+ in 2011, reported Benjamin Purvis and Simon Kennedy of *Bloomberg*.

The decision to lower the rating was not a comment on the strength of the U.S. economy, which expanded faster than expected in the second quarter on the strength of business investment in equipment, particularly transportation equipment, reported Erik Lundh of The Conference Board.

While many were baffled by the decision, as well as its timing, Fitch had warned it was considering a rating downgrade in May when lawmakers were haggling over the debt ceiling while the possibility of default loomed, reported of *Bloomberg*.

Last week, Fitch Senior Director Richard Francis told Davide Barbuscia of *Reuters*, "Fitch downgraded the U.S. credit rating due to fiscal concerns, a deterioration in U.S governance, as well as political polarization reflected partly by the Jan. 6 insurrection."

There are now 10 countries with government bonds that are rated AAA by at least two rating agencies: Germany, Denmark, Netherlands, Sweden, Norway, Switzerland, Luxembourg, Singapore, Australia, and Canada, reported Tania Chen of *Bloomberg*.

Markets did not take the downgrade well. Stocks sold off and Treasury rates rose mid-week. Jacob Sonenshine of *Barron's* reported:

"Of course, the [stock] market always needs a reason to fall, and this past week it found one in surging Treasury yields. It's hard to tell exactly what made them pop. Though some blamed Fitch's downgrade of the U.S. credit rating to AA+ from AAA, it's more likely a combination of massive issuance—the Treasury said it plans to issue more debt than had been expected—and solid economic data that forced market participants to reconsider their growth targets. Higher yields make stocks worth less, all else being equal."

Markets briefly reversed course later in the week when the U.S. employment report showed jobs growth easing. Overall, employment data supported the idea that a recession may be avoided. The number of new jobs created remained above the pre-pandemic monthly average, and average hourly earnings were up 4.4 percent year-over-year, according to *Barron's* Megan Leonhardt.

At the end of the week, major U.S. stock indices were lower, reported *Barron's*. Yields on longer U.S. Treasuries rose more than yields on most shorter Treasuries, steepening the yield curve.

Data as of 8/4/23	1-Week	YTD	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 Index	-2.3%	16.6%	7.9%	10.6%	9.5%	10.1%
Dow Jones Global ex-U.S. Index	-2.3	8.9	7.1	3.1	1.1	2.0
10-year Treasury Note (yield only)	4.1	N/A	2.7	0.5	2.9	2.6
Gold (per ounce)	-0.6	7.2	8.9	-0.6	9.9	4.1
Bloomberg Commodity Index	-1.2	-6.1	-10.3	14.5	4.5	-1.6

S&P 500, Dow Jones Global ex-US, Gold, Bloomberg Commodity Index returns exclude reinvested dividends (gold does not pay a dividend) and the three-, five-, and 10-year returns are annualized; and the 10-year Treasury Note is simply the yield at the close of the day on each of the historical time periods.
Sources: Yahoo! Finance; MarketWatch; djindexes.com; U.S. Treasury; London Bullion Market Association.
Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly. N/A means not applicable.

WHAT ARE BONDS? Bonds are loans that investors make to governments, companies and other entities. When an investor buys a bond, they agree to lend their money for a specific period of time. In return, the issuer of the bond agrees to pay interest and return the investors' principal when the bond matures.

Bonds are a part of many investment portfolios because they:

1) Offer a source of income, and
2) Help manage overall portfolio risk.

Generally, bonds are thought to be safer than stocks; however, they are not risk-free. Bonds have interest rate risk, which means the value of a bond changes over time, depending on how attractive its interest rate is to investors. For example:

Bond values fall when rates rise. If interest rates move from 3 percent to 5 percent, and new investors will earn a 5 percent interest, then the value of bonds offering 3 percent are likely to drop. The opposite is also true.
Bond values rise when rates fall. If interest rates move from 5 percent to 3 percent, and new investors will earn a 3 percent rate of interest, the value of older bonds offering a 5 percent return are likely to increase.

The risk and reward profile of a specific bond depends on a variety of factors, including:

The length of time until the bond matures. When a bond "matures," the issuer is expected to repay the money it borrowed. Maturities may range from one month to 30 years. Bonds with shorter maturities tend to pay less interest because the chance that interest rates will change significantly is lower.

The creditworthiness of the borrower. Creditworthiness reflects whether the borrower is expected to pay interest and return principal in a timely way. Independent rating agencies – Fitch, Standard & Poor's and Moody's – review the financial and credit histories of governments and companies that are issuing bonds, and then assign ratings. There are two broad rating categories:

- *Investment grade* (AAA/highest quality, AA/high quality, A/strong quality and BBB/medium investment grade), and
- *Below-investment grade* (BB/low investment grade, B/highly speculative, CCC/substantial risk, CC/high probability of default, C/default in process and D in default).

There are many nuances to bond investing. If you have questions, please get in touch.

Weekly Focus – Think About It

"There is nothing either good or bad but thinking makes it so."

—William Shakespeare, playwright

Best regards,

Angela M. Bender

P.S. Please feel free to forward this commentary to family, friends or colleagues. If you would like us to add them to the list, please reply to this email with their email address and we will ask for their permission to be added.

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* This newsletter was prepared by Carson Coaching. Carson Coaching is not affiliated with the named firm or broker/dealer.
* Government bonds and Treasury Bills are guaranteed by the U.S. government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value. However, the value of fund shares is not guaranteed and will fluctuate.
* Corporate bonds are considered higher risk than government bonds but normally offer a higher yield and are subject to market, interest rate and credit risk as well as additional risks based on the quality of issuer coupon rate, price, yield, maturity, and redemption features.
* The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general. You cannot invest directly in this index.
* All indexes referenced are unmanaged. The volatility of indexes could be materially different from that of a client's portfolio. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment. You cannot invest directly in an index.
* The Dow Jones Global ex-U.S. Index covers approximately 95% of the market capitalization of the 45 developed and emerging countries included in 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.
* Gold represents the 3:00 p.m. (London time) gold price as reported by the London Bullion Market Association and is expressed in U.S. Dollars per fine troy ounce. The source for gold data is Federal Reserve Bank of St. Louis (FRED), https://fred.stlouisfed.org/series/GOLDPMGBD228NLBM.
* The Bloomberg Commodity Index is designed to be a highly liquid and diversified benchmark for the commodity futures market. The Index is composed of futures contracts on 19 physical commodities and was launched on July 14, 1998.
* The DJ Equity All REIT Total Return Index measures the total return performance of the equity subcategory of the Real Estate Investment Trust (REIT) industry as calculated by Dow Jones.
* The Dow Jones Industrial Average (DJIA), commonly known as "The Dow," is an index representing 30 stock of companies maintained and reviewed by the editors of The Wall Street Journal.
* The NASDAQ Composite is an unmanaged index of securities traded on the NASDAQ system.
* International investing involves special risks such as currency fluctuation and political instability and may not be suitable for all investors. These risks are often heightened for investments in emerging markets.
* Yahoo! Finance is the source for any reference to the performance of an index between two specific periods.
* The risk of loss in trading commodities and futures can be substantial. You should therefore carefully consider whether such trading is suitable for you in light of your financial condition. The high degree of leverage is often obtainable in commodity trading and can work against you as well as for you. The use of leverage can lead to large losses as well as gains.
* Opinions expressed are subject to change without notice and are not intended as investment advice or to predict future performance.

* Economic forecasts set forth may not develop as predicted and there can be no guarantee that strategies promoted will be successful.
* Past performance does not guarantee future results. Investing involves risk, including loss of principal.
* The foregoing information has been obtained from sources considered to be reliable, but we do not guarantee it is accurate or complete.
* There is no guarantee a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not protect against market risk.
* Asset allocation does not ensure a profit or protect against a loss.
* Consult your financial professional before making any investment decision.

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