Weekly Focus – Think About It

"My mama always said, life was like a box a chocolates. You never know what you're gonna get." —*Forrest Gump, movie character*

THE MARKETS

HIGHER BOND YIELDS MAY BE GOOD FOR INCOME INVESTORS – AND NOT SO GOOD FOR STOCK MARKETS

After more than a decade of near-zero interest rates, the "free money" era – a time when people and businesses could borrow money and repay it with very low (or no) interest – may be over.

Last year, rising inflation caused the Fed to begin raising the federal funds rate aggressively. Yields on bonds moved higher, too. At the end of last week, the yield on a one-year U.S. Treasury bill was 5.35 percent, up from only 0.40 percent at the start of 2022.

Many people thought rates and bond yields would come back down relatively quickly, but that school of thought is changing, reported Michael Mackenzie and Liz Capo McCormick of *Bloomberg*.

"All around the world, bond traders are finally coming to the realization that the rock-bottom yields of recent history might be gone for good…The surprisingly resilient US economy, ballooning debt and deficits, and escalating concerns that the Federal Reserve will hold interest rates high are driving yields on the longest-dated Treasuries back to the highest levels in over a decade. That's prompted a rethink of what 'normal' in the Treasury market will look like…strategists are warning investors to brace for the return of the '5% world' that prevailed before the global financial crisis."

Higher bond yields may be good news for income-oriented investors who turned to dividend-paying stocks for income when bond yields were low. Now, those investors may be able to earn attractive yields with lower-risk Treasuries, reported Al Root of *Barron's*.

It's not such great news for stock markets, though. "…rising Treasury yields are a problem for stocks because investors will rotate out of riskier equities and into less-risky bonds because the additional return in stocks isn't worth the volatility," stated a source cited by Teresa Rivas of *Barron's*.

Last week, major U.S. stock indices finished lower, while yields on longer-term U.S. Treasuries moved higher.

Data as of 8/18/2023	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	-2.1%	13.8%	2.0%	8.8%	8.9%	10.3%
Dow Jones Global ex-U.S.	-3.3	4.3	1.6	0.7	0.7	1.6
10-year Treasury Note (Yield Only)	4.3	N/A	2.9	0.7	2.8	2.9
Gold (per ounce)	-1.2	4.5	7.3	-2.0	9.8	3.3
Bloomberg Commodity Index	-1.3	-7.6	-14.2	12.9	4.6	-2.2

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; the DJ Equity All REIT Total Return Index does include reinvested dividends 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, Barron's, djindexes.com, 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.

JUST OUT OF REACH

If you've ever stretched on tippy-toe trying to pluck an apple from a tree or pull a bowl from the highest kitchen shelf – and haven't been able reach it – then you've experienced a version of the frustration prospective homeowners are feeling.

In the United States, homeownership is an important means of accumulating wealth. Last week, Emily Peck of *Axios* wrote, "With home prices going up — and mortgage rates at a stunning 22-year-high — the situation is looking increasingly bleak for Americans looking to buy a house…Prognosticators had believed that rising mortgage rates would force home prices lower — and they did fall by 13% from their 2022 peak. But prices are still 26% higher than they were in the first quarter of 2020"

Americans who were eager to buy homes in the 1980s may have felt similarly bleak. While home prices were significantly lower 40 years ago – the median price was about $69,000 in 1981 versus $420,000 in the first half of 2023 – mortgage rates were considerably higher.

The highest ever 30-year fixed mortgage rate was 18.53 percent in October 1981. Last week, the average 30-year fixed mortgage rate was 7.09 percent, which is below the 52-year average of 7.74 percent, according to data from the *Federal Home Loan Mortgage Corporation* (aka Freddie Mac). Regardless, in tandem with higher home prices, it's high enough to put owning a home out of reach for many Americans, right now.

In times like these, it's important to remember that the economy is cyclical. We are in a period of expansion. Eventually, we will experience a recession. During recessions, rates tend to drop as the Fed tries to stimulate the economic growth. Home values can move lower, too, reported AJ Dellinger of Bankrate.com.

"Decreased demand and fewer buyers mean that fewer people are competing for the same inventory of homes. When that competition dries up, sellers lose the upper hand they enjoy in a roaring seller's market like we've seen in recent years."

Best regards,

Andrew Zittell
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* 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.
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* Yahoo! Finance is the source for any reference to the performance of an index between two specific periods.
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