



Weekly Market Commentary – August 14th, 2023

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 8/18/23	1-Week	YTD	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 Index	-2.1%	13.8%	2.0%	8.8%	8.9%	10.3%
Dow Jones Global ex-U.S. Index	-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; 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.

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.”

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

Best regards,

Michael Allard

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* 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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