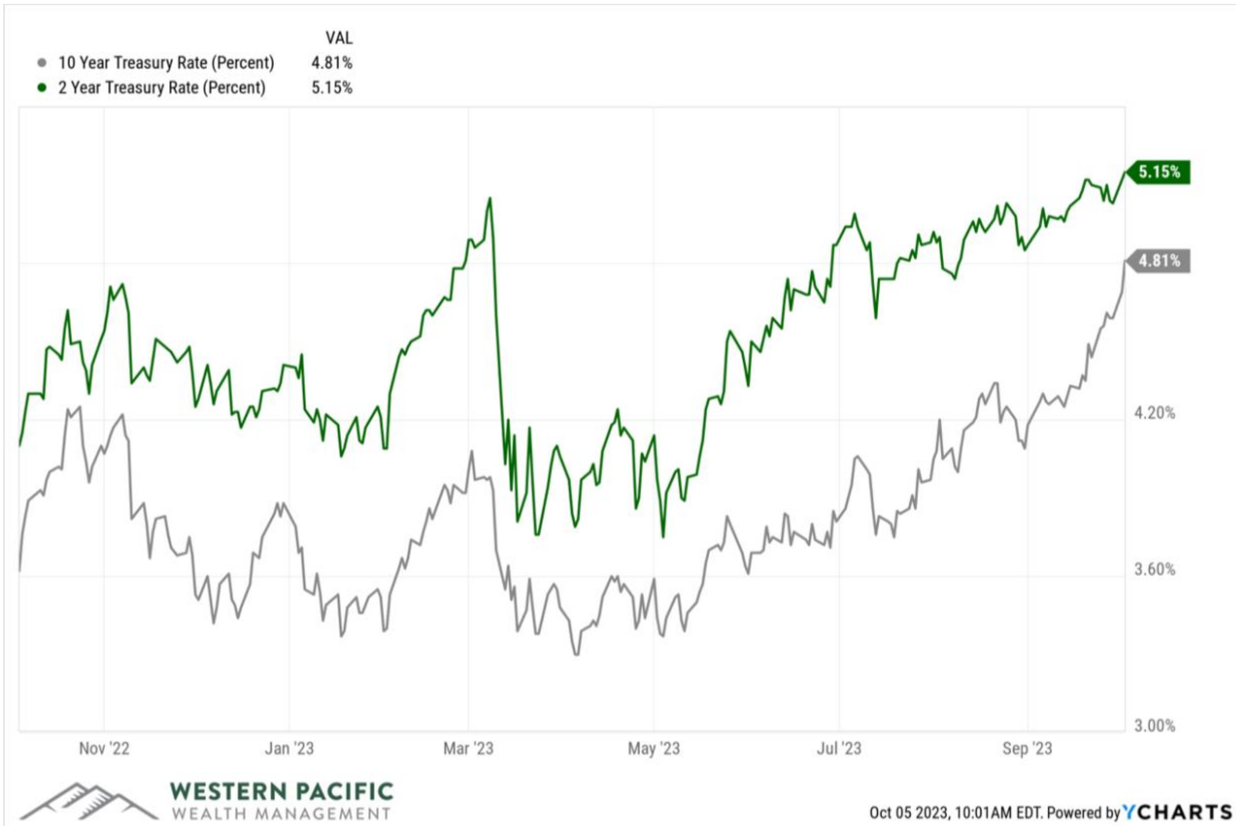
October 5, 2023 Market Update
Stocks Fall as Interest Rates Rise

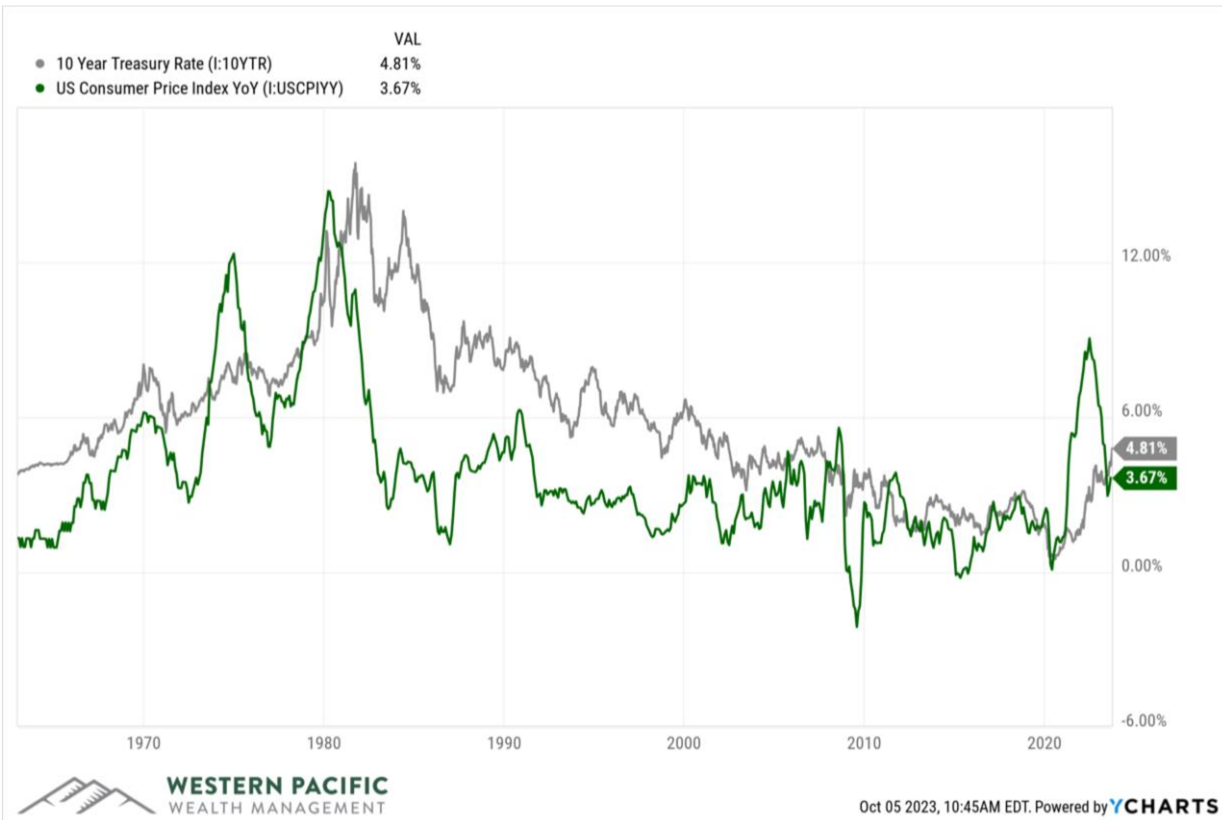
Ten Year and Two Year Treasury Yields



Equity markets experienced a substantial sell off in the past month. Unlike the market decline in 2022 which was caused by high inflation, the recent sell off is linked to higher interest rates, especially for longer term securities. Long-term interest rates are currently at the highest levels since 2007. In our view this is due to three things: First, Fed Chair Powell and other Fed leaders made it clear in recent weeks that they envision rates staying higher for a longer period than most investors expected. Second, investors appear to be now factoring in a more “normalized” interest rate structure where interest rates are expected to be higher than the inflation rate. (This was the norm before the recent period of historically low interest rates, see chart below.) Third, the US economy has been much stronger than expected. Contrary to misplaced concerns at the beginning of the year about an economic slowdown, strong economic growth is now contributing to inflation and helping to keeping rates high. Data from the Atlanta Fed shows that the economy may be growing as fast as 5% right now.

The following chart shows the relationship between inflation and the ten year Treasury yield going back to 1962. As you can see, the ten year Treasury yield is usually higher than the inflation rate. The reasoning behind this is that investors should require a rate of return higher than inflation to purchase a fixed income security.

Ten Year Treasury Yield vs. Consumer Price Index



It is impossible to say how long this selloff will continue. The data we follow shows that the market was fairly valued in July and is now approaching levels where it is more attractive. Measures of market sentiment show that the market could be nearing at least a short-term low.

As always, please feel free to call with any questions or if you'd like to discuss your investments.

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