INVESTMENT INSIGHTS

Finkelberg INVESTMENTS of RAYMOND JAMES®

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DJIA	S&P 500	3-MONTH T-BILL	10-YR TREASURY BOND
31,880	3,974	1.07%	2.86%

BREAKING RECORDS
Baseball, Stocks, and Bonds

Working as a statistician must be an in-demand career. If you watch any televised sporting event, you can find out the most detailed and irrelevant facts imaginable. A typical baseball example might be: "That home run by Jones left with a launch speed of 110 miles per hour at a 16 degree angle and was Jones's third career home run on the first Tuesday after Mother's Day." And of course, the statisticians inform us of every record-breaking event. For instance, I just learned that if this season's overall batting average remains on its current pace, it would be the lowest in baseball history.

Moving from the world of sports to the financial markets, I recently read about two less than stellar records: 1) stocks are off to their worst start in the past 50 years, and 2) the 18% drop in value for long-term bonds recorded over the first four months of this year exceeds any full-year decline since 1842. Wow. 180 years is even longer than the time between Chicago Cubs World Series wins.

So, what has been happening to so dramatically and negatively affect the prices of both stocks and bonds? The answer in large part is rising interest rates. The benchmark ten-year Treasury bond started 2022 with a yield of approximately 1 ½%. At the end of April, the yield was almost 3%. The roughly 1 ½% jump has derailed financial assets.

Prior increases of 1 ½% have not been as devastating because in the financial world, the starting point makes all the difference. A move from say 5 to 6 ½% is only a 30% increase, while this year's rate jump represents close to a 100% move.

The Stock Side

Without getting too wonkish, a company's stock price is based upon the estimated cash flow of all future earnings discounted back to today. The higher interest rates get, the less value those future cash flows represent. Therefore, as rates have risen, stock prices have declined, with companies that are more reliant on future earnings growth (think tech stocks) getting hit the hardest.

Stocks have, of course, historically demonstrated volatility. Stock declines can be attributed to any number of factors including geopolitics, interest rates, the economy, pandemics, and terrorism. This year's drop of around 20% on the S&P 500 is not too unusual, particularly after climbing about 50% over the 2020 and 2021 timeframe. It's not fun to experience a decline on the stock side, but other than the fact that the downturn started just as the new year began, the drop is neither unusual nor unexpected.

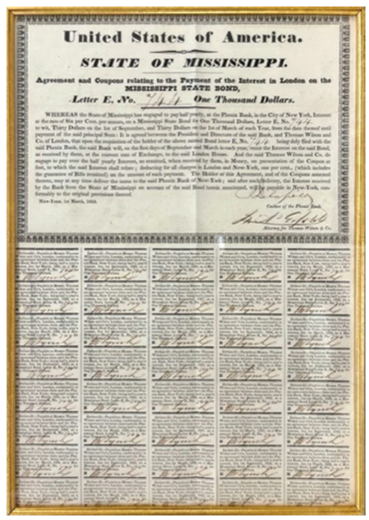
The Bond Side

Bonds, on the other hand, are considered the less volatile asset class. The near-record breaking 18% drop in the long-term bonds for the first four months is unusual because of the size of the drop and because the prices of stocks and bonds declined in tandem. Often, during stock market drops, bonds will rally as investors move money into the safer asset. This year, with the underlying inflation pressure, the increase in rates overwhelmed other factors and led to the largest drop since 1842.

What was happening in 1842?

If you are too young to remember, let me provide some of the historical background. In 1842, the U.S. had less than 20 million citizens populating 26 states. The Civil War was nearly two decades away and John Tyler (who?) was President. Notre Dame, Villanova, and The Citadel were all colleges that started in 1842. For some reason, I cannot recall which movie won the Oscar, but Charles Dickens and Edgar Allen Poe were popular authors.

On the financial side, the long-term bond market plunged over 20% that year. The catalyst for the drop was decidedly different than the cause of the current decline. The U.S. experienced a bank panic starting in 1837, and an economic depression culminated in numerous states defaulting on their debt obligations in 1841 and 1842. In fact, I have a defaulted Mississippi bond issued in 1833 hanging in the office (see photo to the right). The bond still has the unclipped coupons after the default date, and I am ever hopeful that one



United States of America.

STATE OF MISSISSIPPI.

Agreement and Coupons relating to the Payment of the Interest in London on the MISSISSIPPI STATE BOND,

Letter E. No. 744 One Thousand Dollars.

day Mississippi will decide to make good on those payments, including the back interest! So, the immediate cause of the 1842 bond market drop was due to massive defaults of state obligations, while today's bond market drop is almost entirely due to higher interest rates. Current credit quality is actually quite good with many more recent upgrades than downgrades for investment grade bonds.

What do we do about bonds?

To answer this question, I will shamelessly quote myself from the last newsletter: "Knowing that rates are cyclical and knowing what we don't know (namely the direction of interest rates), our fixed income recommendations have been designed for just this eventuality. We believe that hedging your interest rate bets by having bonds come due annually, spread over a 10 to 12 year maturity ladder is a sensible strategy. This way, one's average 5 to 6 year maturity bond portfolio is not overly sensitive to interest rate changes (versus longer-term bonds). And importantly, when the bond matures (barring the unlikely scenario of a default), it will be worth what was expected when the bond was purchased and can now be rolled over at a higher yield, assuming rates are now higher.

One of our goals with the bond portion is to dampen the overall impact of stock declines. Bonds represent the less volatile side of the portfolio. And while we may go through times when bond prices decline, eventually the bonds come due at their expected value and will in the long run provide a buffer to the portfolio volatility."

In summary, we have properly prepared for this market with our recommendations on how to structure the portfolio in the first place. Now, it is crucial to stay with the program. At current levels, intermediate investment grade corporate bonds yield 3-5%. Enjoy the higher levels, and if rates continue up, more bonds will be coming due to lock in the higher rates.

So the bad news for bonds is that interest rates are up. And the good news? Interest rates are up.

Hopefully, it will be at least 180 more years before the statisticians tell us we have set another record drop in the bond market. Over that stretch of time, I bet that even my beloved Mets will win another World Series. Maybe.

Until next time,

Arty

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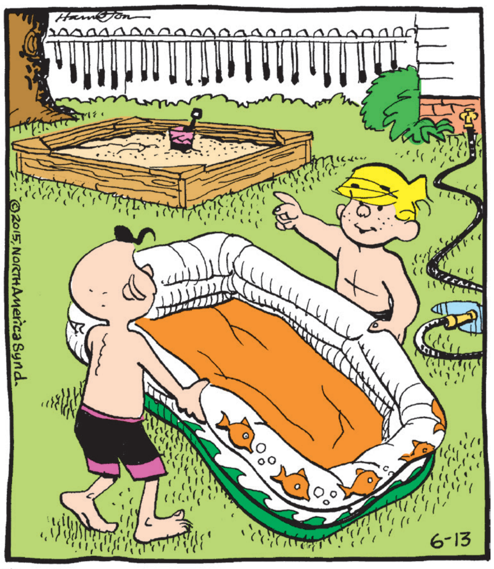
Managing Director, Investments

Happy birthday to those celebrating special birthdays!	Happy Anniversary to those celebrating their 50th, 60th, and higher wedding anniversaries!	Thanks to our out-of-town visitor! It was great to see you!
104 F.F. of Natchez, MS 93 L.I. of Pleasanton, CA 85 J.P. of Brandon, MS	70th W. and L.J. of Pearl, MS 62nd K. and M.G. of Philadelphia, MS	K.T. of Roatán (Honduras)

Many of you have received solicitations to participate in class action lawsuits. While many of these claims are profitable for the attorneys involved, the following cartoon might put the issue in context for the average investor:
Pepper... And Salt cartoon

"It's a settlement check for $8.23. Apparently we're members of a class that suffered irreparable economic loss and severe emotional distress."

With the skyrocketing real estate prices, it appears that even Dennis is trying to cash in.



"LET'S PUT THE POOL OVER BY THE SANDBOX... THEN WE'LL HAVE BEACHFRONT PROPERTY."