Good morning. My update is a little off schedule this week as I was waiting for the Fed announcement yesterday and the market reaction. As expected, short term interest rates were raised by .25% to a "Terminal Rate" of 5.00%-5.25%. More importantly, the FOMC (Federal Open Market Committee) confirmed that it intends to keep rates at this level for the foreseeable future and not raise any further. So, barring any unforeseen data that would force their hand otherwise, they are done hiking for this cycle which means from here the direction is sideways or down.

This is very important because it confirms what my belief has been since the fall of 2022, it is time to extend your duration and invest in bonds that lock in rates for a long period of time. Why? Even though short-term rates are higher now (as displayed by the inverted yield curve where the 2-year treasury is higher in yield than the 10 year treasury) when they begin to fall they tend to fall fast and will eventually end up yielding a lower interest rate than longer-dated bonds, if you do not hold them to maturity. Furthermore, you can get the benefit of a longer duration locked-in yield and have the capital appreciation of your bonds because as yields fall, the value of the bond increases. See the following graph for historical examples of what has happened in the past when short-term rates have peaked:

Time Period 1 (8/18/78-5/1/80)
- # Days 1-Yr >10-Yr: 423
- 1-Yr Peaked: 3/26/80

Investing When 1-Yr Peaked 3/26/80

	1-Year Treasury	Bbg Agg Index
3/26/1980	16.47	10.51
3/26/1981	13.65	11.06
3/26/1982	14.21	33.2
Cumulative	51.18	63.48

Time Period 2 (9/15/80-10/22/81)
- # Days 1-Yr >10-Yr: 272
- 1-Yr Peaked: 9/3/81

Investing When 1-Yr Peaked 9/3/81

	1-Year Treasury	Bbg Agg Index
9/3/1981	17.31	29.86
9/3/1982	10.88	16.4
9/2/1983	10.62	9.76
Cumulative	43.89	65.91

Time Period 3 (1/25/89-11/6/89)
- # Days 1-Yr > 10-Yr: 147
- 1-Yr Peaked: 3/21/89

Investing When 1-Yr Peaked 3/21/89

	1-Year Treasury	Bbg Agg Index
3/21/1989	9.85	13.87
3/21/1990	8.39	11.42
3/21/1991	6.39	11.75
Cumulative	26.67	41.78

Time Period 4 (3/20/00-1/2/01)
- # Days 1-Yr > 10-Yr: 173
- 1-Yr Peaked: 5/31/00

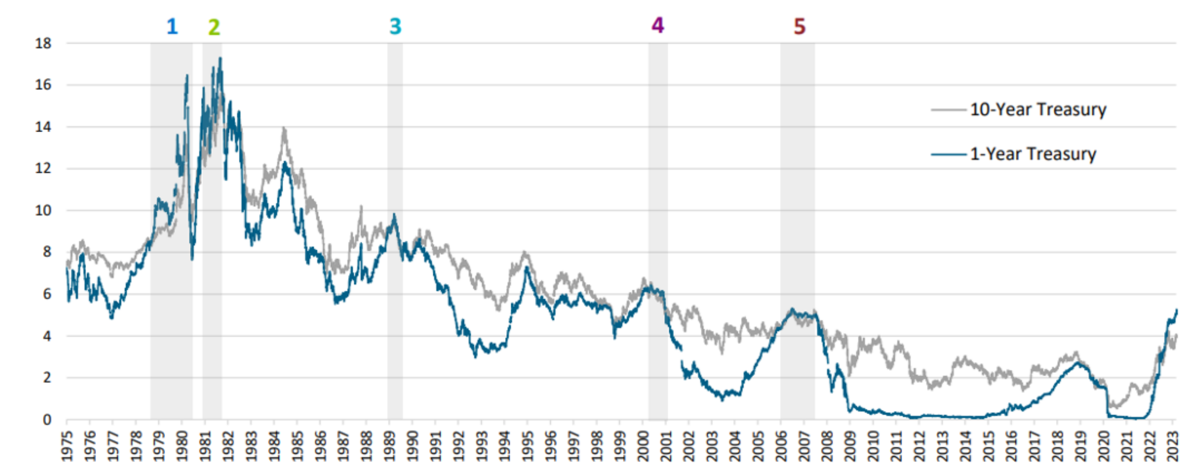
Investing When 1-Yr Peaked 5/31/00

	1-Year Treasury	Bbg Agg Index
5/31/2000	6.37	12.97
5/31/2001	3.63	8.71
5/31/2002	2.34	11.54
Cumulative	12.81	36.98

Time Period 5 (1/13/06-6/5/07)
- # Days 1-Yr > 10-Yr: 303
- 1-Yr Peaked: 6/26/06

Investing When 1-Yr Peaked 6/26/06

	1-Year Treasury	Bbg Agg Index
6/26/2006	5.3	6.54
6/2[illegible]2007	4.97	6.79
6/26/[illegible]008	2.39	6.47
Cumulative	13.18	21.13



From 1/02/1975 to 2/28/2023. Daily returns for the Bloomberg Aggregate Bond Index are not available prior to 1989, so monthly returns are used for time periods 1 & 2 instead. The returns for period 1 and 2 are as of 2/28 and 8/31 instead of 3/26 and 9/3. Sources: 1-Year Treasury, 10-Year Treasury: www.treasury.gov; Returns: Morningstar Direct.

This is the polar opposite of the bond market we saw last year. In this scenario, the credit worthiness of the issuer become your biggest concern and in this environment we would advocate sticking to higher credits in the taxable market and municipal bonds in the taxable market (especially since we are most likely at a generational low in tax rates – my opinion).

After the market closed yesterday, David Kelly, Chief Global Strategist & Head of Global Markets Insights hosted a call to discuss key take-aways from yesterdays Fed meeting. David summed it up with a list of things in the economy & markets he is worried about and not worried about:

<u>Not Worried:</u>

- **Housing** – All signs point to stability. Housing starts are largely stable with sign of slowly drifting down.
- **Rental Vacancy** – Starting to tick up. This is good for price stabilization and will show up in inflation through the homeowner rental equivalency estimates – a key data point for the Fed.
- **Consumer Spending** – Don't ever bet against the recklessness of the American Consumer. Travel & Leisure are booming and vehicle sales had a good April as supply chains have finally put cars back in the showroom

<u>Worries:</u>

- **Business Spending** – There is a lag between profit growth and spending. Companies are pulling back on capital expenditures and laying off employees. It's difficult to grow your company when you are doing that and this will affect the bottom line. It is also worth noting that, going forward, businesses now have to contend with a "tax-cliff" that may emerge as the 2017 Tax Cuts & Jobs Act expires in 2025 opening the door to huge tax hikes for small businesses and corporations.
- **Credit** – Credit conditions are tightening and fast. Smaller regional banks (see daily headlines) are having trouble holding on to deposits which affects lending. Add on top of that the increased regulation that is all but assured and you get the worst possible combination of pullback and regulation which will contract credit overall.
- **Bank Deposits** – The main reason banks are having a tough time keeping deposits is the difference in rates you get on a checking/savings account vs. a money market/CD/treasury rate (I have seen the gap over 4%). If banks don't have deposits, they can't lend. Very simple model.
- **Federal Spending** – There will now be a fiscal drag as the Covid related spending, and a divided Congress, force the Federal government to slow down spending. Also worth noting is that with MUCH higher interest rates than 18 months ago, the cost to service our debt is increasing which crowds out spending for rother items.

Sum it all up and our stance on being cautiously optimistic about this market remains. The big difference between now and the beginning of 2022 is that fixed income now pays a competitive yield (we are overweight longer-dated bonds) and alternative investment classes like Managed Futures offer a non-correlating but competitive return profile. Our allocation is a reflection of this.

Thank you as always for your time and attention to this update. Please feel free to share this with a friend or colleague. If you have any questions or comments, my line is always open.

Have a great weekend.

Regards,

Tim

See Our Latest Thoughts on the Markets:
https://davis.stewardpartners.com/.6.htm

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All recognition award information can be found on Steward Partners' website at http://www.stewardpartners.com/recognition.34.html

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Interest on municipal bonds is generally exempt from federal income tax. However, some bonds may be subject to the alternative minimum tax (AMT). Typically, state tax-exemption applies if securities are issued within one's state of residence and, local tax-exemption typically applies if securities are issued within one's city of residence. The tax exempt status of municipal securities may be changed by legislative process, which could affect their value and marketability.

Bonds are affected by a number of risks, including fluctuations in interest rates, credit risk and prepayment risk. In general, as prevailing interest rates rise, fixed income securities prices will fall. Bonds face credit risk if a decline in an issuer's credit rating, or creditworthiness, causes a bond's price to decline. Finally, bonds can be subject to prepayment risk. When interest rates fall, an issuer may choose to borrow money at a lower interest rate, while paying off its previously issued bonds. As a consequence, underlying bonds will lose the interest payments from the investment and will be forced to reinvest in a market where prevailing interest rates are lower than when the initial investment was made.

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