

August 17, 2023

Good Afternoon,

Market action so far in August has been generally negative, with both stock and bond prices declining. Based on comments from the last Federal Reserve meeting, the general expectation is that interest rates will be higher for longer to combat inflation, which remains above the Fed's 2% target. That anticipation naturally pushes up the yield on Treasuries, with the yield on the 10-year T-note reaching its highest level this year today. Rising yields generally means falling prices in the bond market. The stock market also prefers lower rates, but its decline is mostly a reflection of some selling after a powerful rally in the first half of the year. Stocks have given up the gains they recorded in July. However, the decline so far has been shallow and orderly, and it looks more like a "buyers' strike" than a hurried rush to the exits.

With Treasury rates much higher than they were 18 months ago, the US will be paying much more in interest to bondholders going forward. As older bonds mature, new debt is issued to pay lenders back their principal. Those new bonds have higher rates, thus increasing the amount the government must pay. Compounding the problem is ongoing deficit spending which requires more and more borrowing (through more bond issues). Of the fourteen countries rated AA or above by Fitch, the United States has the highest estimated 2023 deficit as a percentage of GDP (6.5%) and the second highest interest expense as a percentage of revenues. Interest expense for the US is now 8% of revenues and that percentage is going up.

In contrast to the US debt, the percentage chance the Cincinnati Reds will make the playoffs is decreasing and my interest in following them is declining. My hopes were inflated. The Reds are striking out like my bad metaphors. Now I feel like an idiom, so I'll keep my day job.

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As always, if you would like to discuss this or anything regarding current market conditions or your portfolio, feel free to contact me at any time.

Enjoy your weekend!

*Wade*

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