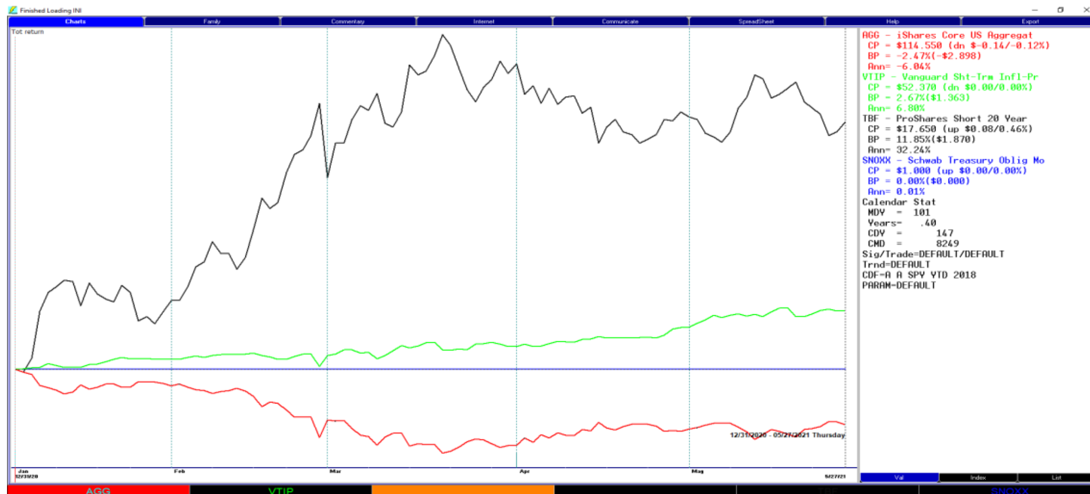
5.28.21

INTEREST RATES VS. STOCK MARKETS – GAME ON!

The biggest unresolved question surrounding the direction of both equity and debt markets is what effect rising inflation will have on their corresponding investment choices. In one sense, interest rates could remain tethered in the face of higher costs for goods, which would mean the near-meteoric rise in 10-year treasury rates between August of last year and March of this year was simply being priced in by investors preparing for this. If inflation surprises to the upside – and it is almost impossible ***not*** to notice the increase in the price of cars, houses and everyday goods – and interest rates continue to climb, it will indicate that markets are showing evidence that they aren't in the mood for this conclusion.

Brief moments of reckoning have come to light with the release of the monthly Consumer Price Index (CPI), printed by the U.S. Bureau of Labor Statistics. Last month's release caught nearly every economist, the government, our Federal Reserve, and most stock market participants off guard as they all underestimated the results – we didn't! – and the S&P dropped 4% in three days.

A snapshot of the Aggregate Bond Index (AGG) shows that this classic benchmark is down -2.47% for the year. This index is always comprised of investment grade corporate bonds, treasury bonds, and government agency mortgages.



The situation with inflation and interest rates should come to light, as markets begin to look forward to the next report on May's consumer prices, which comes out on Thursday, June 10th.

In the meantime, we have been observing the S&P 500 gyrating daily – moving in counter fashion, with small moves in the 20-year treasury bond creating outsized moves in equity markets. The way this plays out is that as the intraday 20-year treasury rate goes down, equity markets move up and vice versa, if the 20-year treasury rate goes up, equity markets move down. As this syncing has increased, so has the volatility, as both longer-term treasuries and the S&P 500 have stalled any forward progress over the last months.

Historically, markets this dependent on debt expansion have moved lower with an accompanying increase in higher long-term rates.

The investing landscape is not the one the media and stock market cheerleaders have led you to believe is happening. It's exactly at junctures like this that our goal of achieving rational and reasonable returns without the threat of large losses becomes a much sought-after philosophy in the face of increasing uncertainty. Case in point, while writing our last commentary in April, the Bitcoin ETF (GBTC) was up 36%! Today, it is negative year-to-date and struggling to come back.

As always, we will continue posting articles that we believe to be of great informational value on our website, under the "Great Articles" tab, which is linked here:

http://summitplan.com/cgi-bin/htmlos.cgi/great_articles.html.

Additionally, the "Summit Planning Financial Hour" will be live this week on Radio 570-WSYR at 10AM on Saturday. Don't forget to tune in for a recap of the week's events. If you cannot tune in, check out our radio show archive on our website at http://summitplan.com/cgi-bin/htmlos.cgi/radio_shows.html.

---

1. Financial planning offered through Summit Planning Group.
2. Content in this material is for general information only and not intended to provide specific advice or recommendations for any individual.
3. The economic forecasts set forth in the presentation may not develop as predicted and there can be no guarantee that strategies promoted will be successful.
4. All performance referenced is historical and is no guarantee of future results. Index performance is not indicative of the performance of any investment.
5. The fast price swings in commodities and currencies will result in significant volatility in an investor's holdings. Commodities include increased risks, such as political, economic, and currency instability, and may not be suitable for all investors.
6. Because of their narrow focus, sector investing will be subject to greater volatility than investing more broadly across many sectors and companies.
7. 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.
8. Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and bonds are subject to availability and change in price.
9. The Standard & Poor's 500 Index is a capitalization weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.
10. All indices are unmanaged and cannot be invested in directly.