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Market Musings

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The Federal Reserve's easy money policy from 2009 through 2021 wreaked havoc on returns for investors. Money market funds, a key vehicle for older savers who fear more volatile investments found themselves with virtually zero return on those investments for many years. Even today, with the surge in interest rates, the 3-month money market rate is 4.46%.

Individual Bonds or Bond Funds?

Last year financial markets experienced a record increase in interest rates. Investors who had spurned investing in bonds took a renewed "interest" in fixed income markets after the disastrous performance of stock markets. For example, the safest bond from a credit perspective is U.S. government treasury bonds. The low for interest rates last year for the 30-year government treasury yielded 1.89%. From that low point, yields increased to a high of nearly 4.6% and fell back to just over 4% by years-end. In other words, yields more than doubled in less than one year! Of course, such an increase in yields inversely affects the price of outstanding bonds.

For investors who sought the safety that long-term government bonds normally provide, they have experienced an epic decline in the value of their investment. Some observers would argue that this decline is not that important for long-term investors as they will get their principal back at maturity—in thirty years. One big difference is that the bond buyer who purchases a bond at year-end with a current yield of about 4% will get twice the amount of income relative to last year's bond buyer. So, for the next thirty-years both investors will get a fixed interest rate, but one will get twice the income.

For both bond investors, changes in future interest rates will play an important role. If rates continue to rise, the prices of both bonds will decline but the income the bonds produce will not change. Moreover, the income from these bonds can be re-invested in fixed income securities that will have an increasing income flow. Conversely, if interest rates decline, the reinvestment rate will also fall. One alternative for an investor who anticipates higher rates is choosing an exchange-traded fund or mutual fund consisting of similar bonds. If rates rise, the income from the fund should rise over time as the fund manager rolls over maturing bonds into new, higher yielding bonds. If rates are expected to fall, then the investment in individual bonds should prove to be the right choice. Of course, making the right guess on interest rates plays a key role and most readers know that such a tactical decision is difficult to achieve. For conservative investors who have suffered from record low interest rates, they will see a substantial jump in their yields on short-term fixed income instruments.

"The most important lesson in investing is humility."

— Sir John Templeton

Market Commentary

The month of December was not kind to domestic equities as large-mid-and small-cap stocks finished down more than 5%. All sectors in the S&P 500 were also lower. Despite posting gains for the fourth quarter, all domestic indices finished in the red with the NASDAQ Composite faring the worst at minus 33%. Last year will go down as the worst for domestic equities since the financial crisis in 2008. The "safe" bond market experienced an historic bust last yearwith the U.S. Aggregate bond index declining 13%---it's worst showing since the decline of 2.9% in 1994. Moreover, long-term (20+ year) government securities fell by almost 33%! So much for safety!

Foreign equities also declined as measured by the 18.8% drop in the DJ World ex US index. Only a handful of foreign equity markets finished in the green. The U.S. dollar pulled back around 6% over the past three months.

Boomers, or those who were born between 1946 & 1964, make up the second-biggest generation in the U.S. In 2019, they were aged 55 to 73 and are estimated at some 71.6 million. Boomers began to reach retirement age by 2011. For the next 12 years, 8,000 to 10,000 Boomers will reach age 65 every day. *(source: The Compare Camp)*

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