Leigh Baldwin & Co.

Investment Brokerage

This Is Not Your Father's Market

We need to go back 34 years to remember the infamous Oldsmobile commercial where the slogan was "This Is Not Your Father's Oldsmobile." The idea was that Oldsmobile had changed and evolved and their new image would resonate with a younger client base. In short, the advertisement ended up being more of a slow lane to a dead end than a revitalization of the brand. Today, there are parts of the global markets where this slogan does resonate, as well as areas where the market appears to have changed, but after looking underneath the hood you may uncover an engine that looks just like the past.

Today is not your father's bond market. On January 1st, 1988, the 10yr US Treasury Bond had a yield of 8.26% with inflation in 1988 at about 4.0% (inflation.eu). Therefore, a US Treasury Bond provided a real yield of about 4%. Fortunately, for bond investors, interest rates maintained a downward trend for the next 34 years. Today, the 10yr US Treasury Bond has a yield of about 2.4% with inflation red hot to start the year, coming in at nearly 8%. This combination produces a negative 6% real yield and creating a flat tire for your portfolio. While interest rates may remain in a trading range in the near term, they may likely rise as the Federal Reserve continues to raise rates. As interest rates rise, bond prices fall. Therefore, today's fixed income climate has low, but rising yields and high inflation, which translated to about a -6% return for Investment Grade Bonds year to date (YTD). We believe it's prudent to opportunistically manage your bond holdings to provide ballast for a portfolio without hindering your future growth.

International equities (about -6% YTD return) may be worth a second test drive. International equities began the year outperforming their US counterparts but gave back their outperformance after the Russian invasion of Ukraine. We continue to monitor the war and hope for a peaceful resolution soon. With that said, the current market environment may provide opportunities in Developed and Emerging Markets as they continue to trade at a discount to US equities on Price-to-Earnings ratios and may be well positioned to grow during a period of higher commodity prices. International equities have given investors multiple head fakes in recent years, causing our team to remain cautious and selective, but we think this is the right time for a second test drive.

The US equity markets are off to a choppy start for the year, with worries surrounding inflation, interest rate hikes, and the Russian invasion of Ukraine. Fortunately, March provided some relief as major indices rebounded off their lows. The Dow Jones and S&P 500 were down about 4% and 4.6% respectively, and the more technology and growth heavy NASDAQ is down about 9%. The US equity market today looks more like Tesla than Ford on the surface. However, it is legacy companies like Chevron, Berkshire Hathaway, and Coke that are providing strong returns for investors. Companies with the ability to adapt to the ever-changing marketplace, pass on cost to the consumer, and a strong balance sheet to weather a storm continue to deliver strong performance. We believe that the US equity market is still your father's market. The market over time will continue to reward companies with strong earnings and fundamentals regardless of what the company looks like on the surface, as it is the numbers under the hood that will guide our decisions and future returns for our clients.

We thank you for your continued support of our firm and look forward to our next phone call, zoom call, or hopefully an in-person meeting. As always, "you do the dreaming, we'll do the math."

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