The following are the Exclusive and Sole Opinions of the Author.

Be careful what you wish.

Falling interest rates ***and*** falling stock prices followed the end of yield curve inversions since 1980. During that period real and nominal interest rates were in a long-term downtrend – broken in 2020. In that regard, it is a brave new world for everyone.

There are rare, obvious, and historically reliable market timing signals, "magic moments" when intermediate or long-term trends change direction. Not over a day or week, usually months long. In retrospect the turn is obvious, but in the moment, it is beyond perception. There are always clues; finding them and interpreting them correctly contemporaneously is a feat for Sherlock Holmes.

The signals are composed of shared extremes, variance that "stand out" dramatically on long term charts.

Pattern recognition becomes possible on intermediate charts that take weeks and months or longer to develop. These are infrequent combinations of economic/sentiment/market statistics that forecast future economic and market outcomes.

Telling the future is impossible – so the explanation for the accuracy of the signals is like Magic. The reasons for the change in market direction are unseen, overlooked or ignored – then – poof – like a magic trick - things change. There are buy signals generated by various momentum and sentiment measures in the equity markets. The sell signals are generated in the fixed income markets.

Both are uncannily dependable.

The buy signals occur during periods of enormous uncertainty and distress.

The sell signals usually take much longer to develop and are associated with confidence and complacency. Investors become impatient, ignoring the constant drum beat of negative news that goes with significant economic deterioration that precedes recessions.

The stage is set for a sell signal. The yield curve inversion is shrinking, reversion to the mean seems inevitable. The two-year/ten-year spread has once again widened but still is far above the nadir. Soon, either the 10-year interest rate will rise faster than the two-year, or both will fall, the two-year more rapidly. A precautionary warning comes the "almost" inversion in 1995, and the subsequent interest rate decline and minor bear market. The reversion signal may occur before the actual cross over the zero line!

Regardless, history suggests that when the yield curve reverts toward normal it is a tough time to own most stocks. Bonds benefit. A lot.

The last four yield curve normalization coincided with significant equity market declines. A fifth near inversion in 1995 had a similar outcome.

It seems counter intuitive to see stock prices fall as interest rates decline. The recency effect has something to do with it. 2022 saw both stock and bond prices fall in tandem, leading to questioning the rational for the 60/40 allocation. It was anomalous. The reversion of the yield curve to normal should restore normal equity/fixed income inverse relationship. Stocks down and bonds up in price.

You do not argue with magic – explanations will be contradictory, inconclusive, post hoc.

The buy signal for the current advance occurred in March-April 2022.

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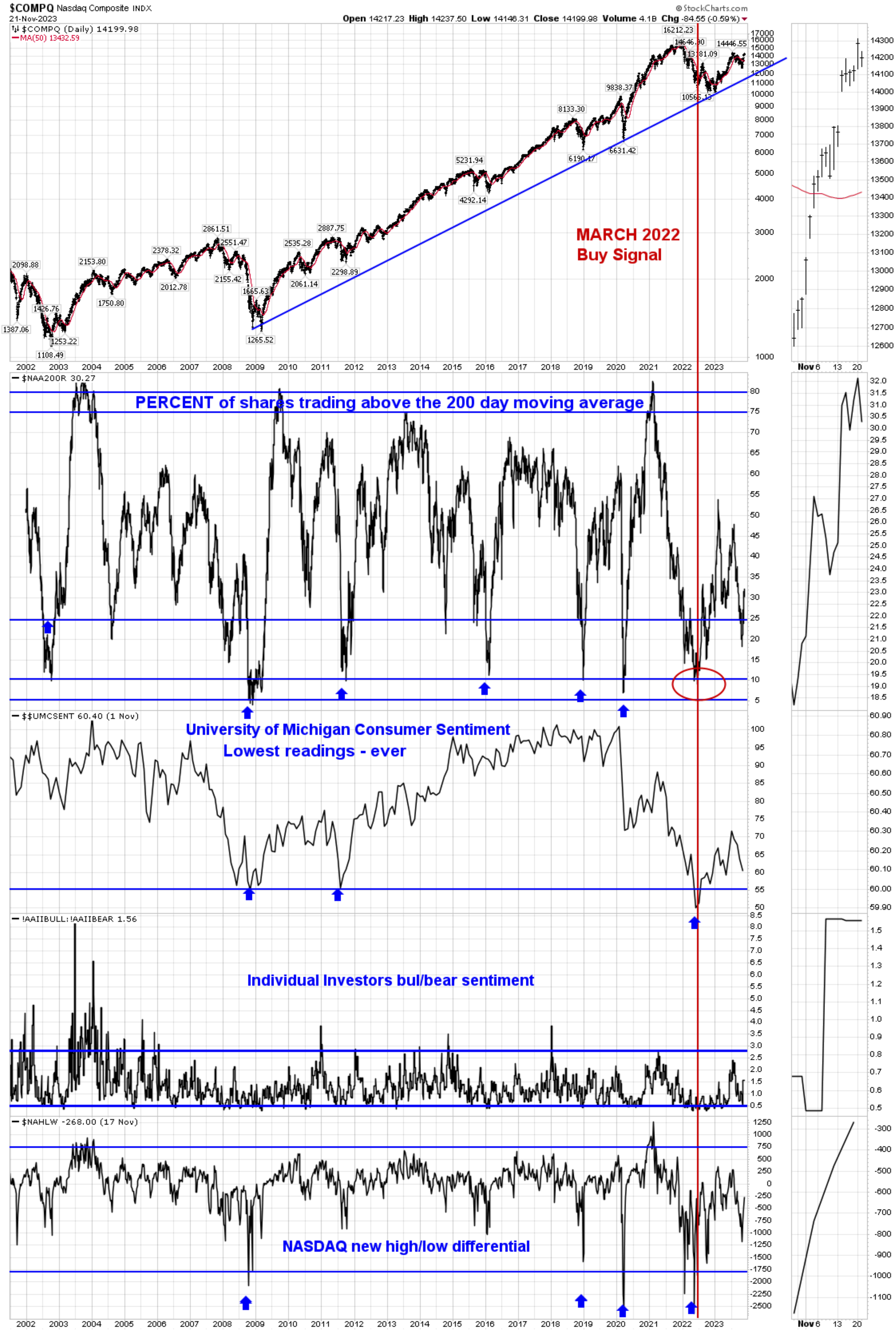

The imminence of the reversion of the curve suggests the current market strength is temporary, an offers opportunity to reduce equity exposure to minimum allocations and add income investments.

Interest rates will fall, when, how far and for how long must be uncertain, even in this largest and most liquid of markets.

Just as the yield curve normally has a positive slope, bond and stock price trends are normally inverse.

There are four prior reversions, the fifth is nearing an end.

The **long-term chart**, which ends in 1980 due to the data set.

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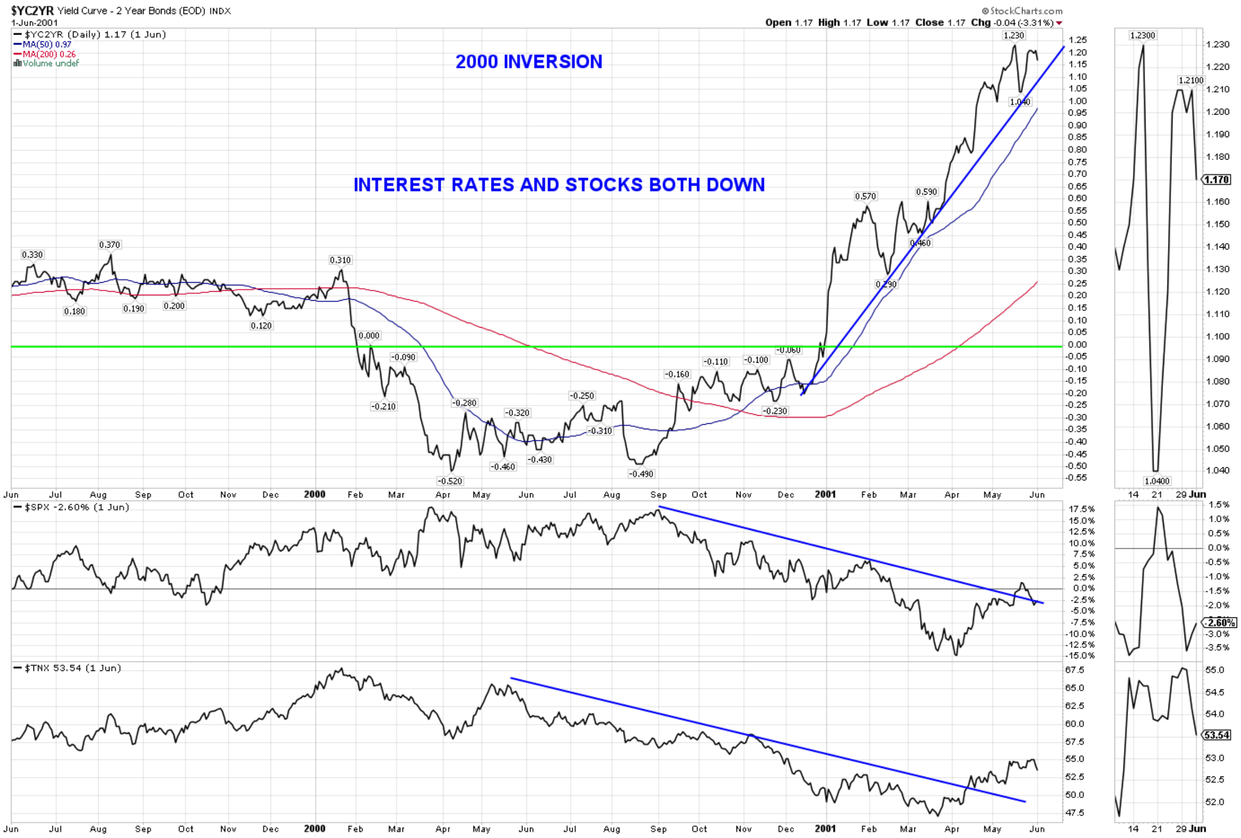
YIELD CURVE REVERSIONS - Close up



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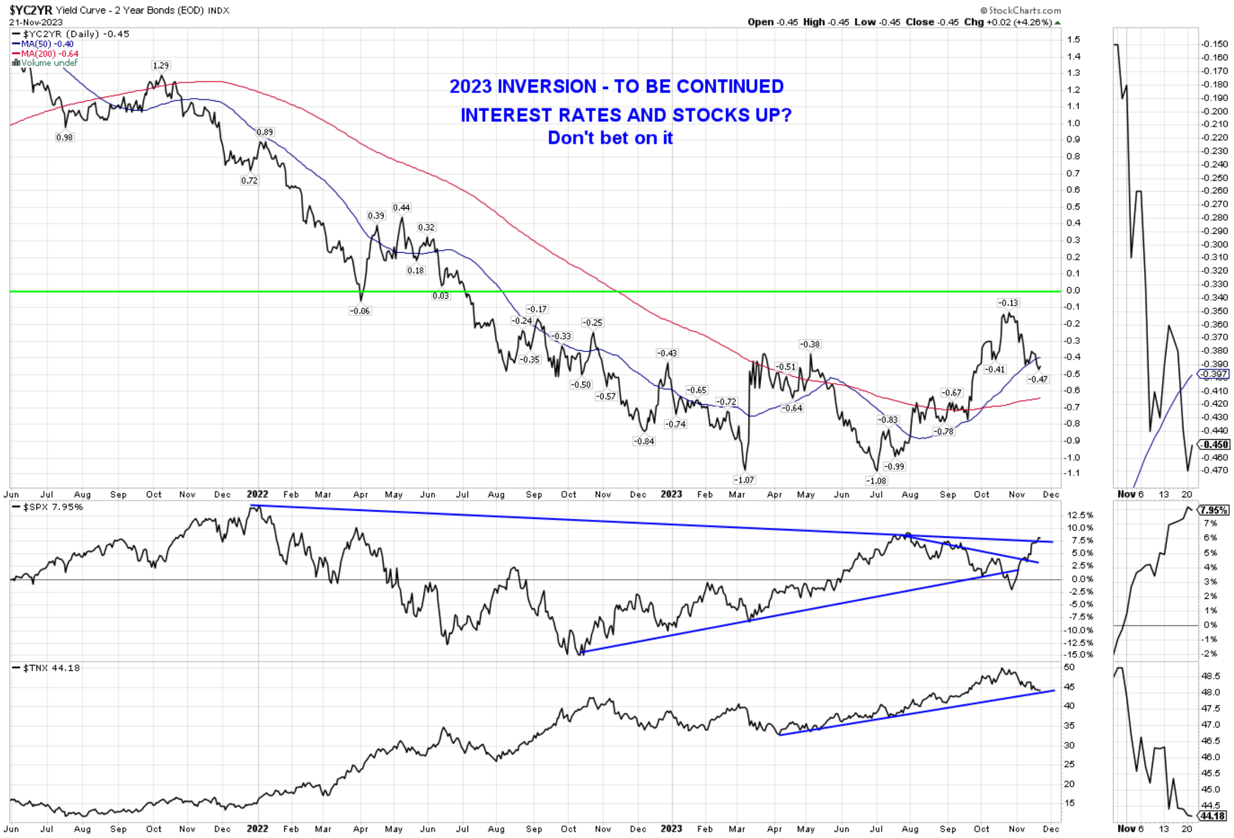
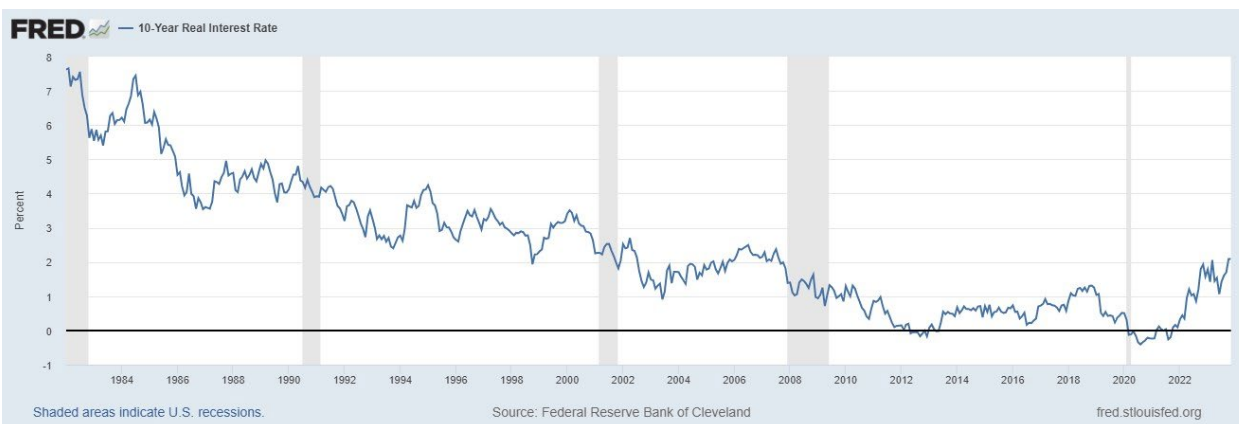
$YC2YR Yield Curve - 2 Year Bonds (EOD) INDX
2-Apr-2020
2019 INVERSION
INTEREST RATES DOWN STOCKS DOWN
$SPX -10.85% (2 Apr)
$TNX 6.27 (2 Apr)



The intermediate uptrend in the ten-year treasury note has slowed and appears to be reversing.

However – the three yearlong increase in rates also penetrated the long, long-term downtrend that began in 1980, a major change in the dynamics.

Real interest rates have soared, reaching levels last seen in 2008. That long-term down trend has also reversed. Inflation increases have slowed recently, and the ten-year yield has dropped about 0.5%. Real rates may well have increased, as the nominal rate fell. Real rates will fall if interest rates drop faster than the inflation rate. Not there yet.



The signal may have already occurred. Regarless real interest rates remain near 20 year highs.

The message is to go long interest rate beneficiaires. From thirty year treasuries to high yield bonds and stocks – the offerings are a banquet for the discerning. As one should expect the higher the potential reurns the higher the risk.

Specific niches offer different risk reward profiles. Municipal bonds, in general are offering significantly higher after tax returns relative to taxable bonds than in many years.

"Kicker" municipals offer tax adjusted competitive short term yields, that can kick into extraordinary returns for these normally boring investments.

The shrinking universe of $25 income securities[1] offers a triple barrel investment potential. High current yields, signifcant capital gain potential and in the most common category, those issued by financial companies, a play on improving operations as rates revert.

Money market returns rose very quickly and can drop just as fast or even faster. "Locking in" the higher real interest rates for longer is challenging.

Precise timing is not possible. Accumualtion over time, as opposed to waiting for "the moment". Is the best approach.

Sometimes the bus arrives and departs ahead of schedule.

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[1] https://www.raymondjames.com/wealth-management/advice-products-and-services/investment-solutions/fixed-income/taxable-bonds/preferred-securities

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