ROBERTSON STEPHENS®

April 18, 2022 – Weekly Notes

Economic Commentary:

Rising interest rates continue to exert their influence on current and anticipated economic conditions. In the important housing market, sellers are noticing some slowdown in offers as buyers are finding it somewhat more challenging to qualify for the mortgage amounts they expected to receive. This slowdown in housing activity — which may be showing up in new construction and permits as well — has not yet impacted housing prices, which have been a major contributor to the upward pressure on inflation. Beyond the housing sector, the tightening of monetary policy globally is starting to show up in the re-pricing of lines of credit and tactical shifts in banking credit policies to maintain credit quality and profits. The emerging business mantra for the second quarter appears to be “Hope for a reasonable ‘best’ and have at least one plan for something worse.”

Data to Watch:

1. US Housing Starts and Building Permits for March, released Tuesday, April 19
2. US Existing Home Sales for March, released Wednesday, April 20
3. Philadelphia Fed Manufacturing Index for April, released Thursday, April 21
4. S&P Global Manufacturing Index for April (preliminary), released Friday, April 22

Suggested Reading:

1. https://www.wsj.com/articles/bank-stocks-have-to-reckon-with-the-downside-of-higher-rates-11650279781
2. https://www.wsj.com/articles/trucking-boom-is-hitting-the-brakes-as-freight-demand-slows-11649881003?mod=hp_minor_pos13
3. https://www.cnbc.com/2022/04/18/world-bank-slashes-global-growth-forecast-to-3point2percent-from-4point1percent-citing-ukraine-war-.html

Investment Commentary:

The major indexes ended mixed over a holiday-shortened week, which saw the release of the first major corporate earnings reports of 2022. Value stocks continued to outperform their growth counterparts, but small-caps regained ground lost the previous week on large-caps. Financials lagged within the S&P 500 Index, dragged lower by JPMorgan Chase after the banking giant missed Wall Street’s estimates. One of the most valuable parts of earnings season is the additional color and forward guidance provided on earnings calls, especially commentary regarding the health of the consumer. For example, in the past week, some financial services companies have indicated household finances are strong (Synchrony Financial cited the “strength of the consumer” while Ally shared that delinquency increases off the 2021 lows “remain gradual and overall levels remain well below 2019.”)

We think market volatility will persist given the uncertain handoff of the economic baton from the central bank to earnings fundamentals. Forward guidance and earnings results will determine the near-term strength of the economy to absorb stubborn inflation, rising interest rates and softening growth. Therefore, portfolio construction is influenced with holdings that maintain higher-quality, value-focused, income-oriented equity exposures with a preference for larger companies over smaller and U.S. over non-U.S. markets. There also continues to be an increasing need for alternative strategies to better risk manage public holdings and source differentiated performance in the private equity and credit markets.

Wealth Planning Commentary:

Watch Variable Interest Rates on Lines of Credit

We believe the Fed will likely further raise rates and that will increase the interest on variable rate lines of credit (LOC). Lines of credit may offer lower rates than fixed rate alternatives and it may not be a cause for concern at the moment.

However, now is a good time to review the amount drawn from the LOC and the rate you are paying. Determine whether you are comfortable with the debt if rates go up by 0.5, 1.0, or perhaps 2.0 percentage points over the next year. Is there an interest rate at which you will begin to pay down the debt? Each circumstance is unique and debt preferences differ by individual.

An important aspect of rising interest rates is determining the impact on your long-term wealth plan. We can help you visualize the impact of higher rates which may help determine whether you have an appropriate level of debt for your preferences.

I-Bonds, an Opportunity for a Small Portion of Assets

The inflation rate was 8.5% in March, continuing to make I-Bonds a government-backed, state and local tax-free investment for maintaining purchasing power.

The Treasury Department announces new I-Bond rates for the next six months on May 2nd and it is expected to be approximately 9.6%. I-bonds purchased before May 2nd will earn a 7.12% for six months and an estimated 9.6% for the next six months. The annualized return would be 8.5% which is March's inflation rate.

How I-bonds work:

- There are two interest rates components; the "Fixed Rate" based on the 30-year life of the bond and an "Inflation Rate" that is reset every six months during the life of the bond.
- The interest you earn is added to the value of the bond twice a year. I-bond must be held for a minimum of one year.

Investment is limited to $10,000 per person each year. A couple may invest $20,000 and purchase another $10,000 for each child. Another $5,000 of I-bonds may be purchased with your tax refund for total $15,000.

Notably this is not a large sum of money, but it may be a small win for you and a larger one for your children.

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