Nolte Notes
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A lover's lament as well as an investor's question: both are wondering cuando, cuando, cuando. When will interest rates stop rising, when will the markets stop dropping and when will inflation calm down? The Fed press conference raised more questions than it answered. If inflation is such a problem, why take the possibility of a 0.75% rate increase off the table? Will the Fed swoop in and "save" the stock market if prices fall "too much"? How will consumers and corporations react to higher rates? Can the government "afford" the higher interest payments on their debt? What is certain is that the Fed has waited too long to begin taking the punch bowl away from the party and the economy will likely suffer a hang-over, it is a question of cuando?

The key "data" point last week was the Fed's meeting and hiking of rates by 0.50%. The employment report, usually a highlight of any week, was relegated to an afterthought. The report continues to show the economy is adding jobs at a fast pace. If there was one blemish, it would be that wage growth slowed a bit. That could be explained because the jobs getting added are at the lower end of the pay scale. Either way, wages are failing to keep up with inflation, which will get "refreshed" this week. The Fed Governors will be all over the place this week discussing monetary policy. Combined with the inflation report, it is likely to be another volatile week. The inflation report may be a bit lower than the prior month, but a couple of items are likely to be scrutinized. Are significantly higher mortgage rates having an impact on the housing market and what is the impact upon rents? Used car prices have come down over 6% this year (but are still up 14% vs. a year ago). Will that help stem some fears? Finally, food and energy (those pesky core items that economists love to ignore!) will be watched as this has the largest impact on consumers pocketbook and is readily seen by everyone.

The ten-year bond has broken well above the 3% level, the highest since the last time the Fed hiked rates. If the yield ticks a bit higher, it will be the highest in over a decade. The bond market decline has been epic, as rapidly rising rates have decimated fixed income investments at the quickest pace since late 1979 into early 1980. What is now getting debated is whether the 40-year bond bull market is now at an end. If so, investors and fixed income managers would need to revise their playbook on how to invest in this type of market. What makes this decline in bond prices especially painful is the lack of interest income to help offset the decline. At least during the late '70's, interest rates were significantly higher, helping cushion and shorten the recovery time in the bond market.

The higher interest rates discussed above continues to wreak havoc on the technology sector. Typically, investors discount future growth back to today at an "assumed" rate of return that usually approximates the yield on a 10-year bond. The lower the yield, the higher the discounted prices. One thing we are finding out too, from the recent quarterly reports, is that companies' margins, or how much they make on a dollar of sales, have dropped some. This is due in part to rising costs for goods as well as higher wages. Not all those costs have been passed through to the consumer. Investors are beginning to realize that earnings are not likely to be rising at the breakneck pace of the past year. In fact, earnings estimates tend to get revised downward as we go through the year. Last year was an anomaly. All that said, both stocks and bonds have been pummeled so far this year and many of the short-term indicators point to at least a relief rally that lasts beyond a day or two. It may be a good time to review holdings considering higher rates and some slower growth, especially if the Fed is successful in raising rates during this year.

Bond stocks and bonds continue to put up weekly losses. If there is any good news, it is that the bond losses are still less than those in the stock market. Yet, bonds are supposed to provide a cushion for stocks. The Fed speakers will be all around the country this week, chatting up their views on the economy, inflation, and interest rates. Like Chair Powell's comments following the Fed meeting, their comments may also move the market this week.