TILIA NEWS

INVESTMENT MANAGEMENT | FIDUCIARY ADVICE | RETIREMENT PLANNING

Tilia Testing Redtail "Speak"

Appointment reminders have become the norm in today's world, and in a text-first society, not as many people are checking their emails as regularly as they once did. For these, and a couple of other reasons, Tilia is testing out a new centralized texting service called Redtail Speak. This is an extension of our current customer relationship management software, and will not only allow us to send appointment reminders, but it will also give us another way to send you important updates. Conveniently, this is a two-way system that will also allow you to send common requests or questions to our operations staff.

Unlike many other messaging platforms, these texts will come from a full phone number: (910) 679-9567. The first time we text you, it will ask you to opt in to receiving texts from your financial advisor. Doing so will help us be more efficient with our scheduling and give you a quicker way to communicate directly with our operations team.

Market update

There is a lot to unpack following the turmoil experienced in both stock & bond markets over the first 100 days of the year. In this update, we are going to focus on two specific issues: interest rates & rate of change in the markets.

Interest Rates are Extremely Important

Effective interest rate policy has a lot of parallels with bike riding. When you are climbing out of a recession or soft patch, you want the gears set low to encourage fast pedaling (spending, borrowing & risk-taking). Once you start to reach the apex of a hill, you want to shift into higher gear and slow your cadence (normalize interest rates to encourage disciplined risk-management). As the cycle matures and you pick up speed, you'll need to tap your rear brakes from time to time to keep from gaining too much speed (incremental adjustments to interest rates & central bank balance sheet).

Done correctly, the economy & markets can manage the rolling hills that business cycles throw at us without falling into deep recessions. Under some scenarios (e.g., the housing bubble of '04 -'06), the brakes come completely off with an absence of proper regulation & central bank oversight, and there is no way to stop the crash. On the flip-side, very aggressive rate hikes can mimic a rider slamming on the front tire brakes and causing themselves to fly over the handlebars.

Over the last couple of months, the market has been worried about the "over the handlebars scenario", as the Federal Reserve worked to quickly normalize interest rates from the zero interest rate policy enacted at the onset of the pandemic. While the overnight Federal Funds rate is still very low (currently 0.75% - 1.00%), the bond market has rapidly priced-in the Federal Reserve's stated intentions for rate increases over the next 12 - 18 months. As a result, mortgage rates & borrowing costs for major corporations rose 50% - 100% in a matter of months.

It is impossible to overstate how much that matters. These rate increases will help keep a lid on housing prices, as homebuilders work to increase supply of single family housing. The increase in corporate borrowing costs will make corporations use more prudence when it comes to acquisitions, share-buybacks & other investment decisions. On the individual investor side, these rate increases will allow bond purchasers to earn a respectable return without taking on too much risk. While a normalized interest rate environment is healthy, too much of a spike in rates would cause economic activity to grind to a halt.

Earlier this month, the 10 year U.S. Treasury Bond topped out at 3.13%, after climbing from 1.72% in February. This 82% increase in 2.5 months was the market freaking out about the "over the handlebars" scenario. Since then, the 10 year Treasury Bond has settled back down to 2.75%, which is sort of a "goldilocks" rate in our opinion. This settling down of rates signals that the market is starting to realize that this economy is still comfortably on the bike, and after squeezing the back tire brakes pretty hard, we may be able to find the right cruising speed after all. Ultimately, a range of 2.5% - 3.5% for the 10 year U.S. Treasury bill over the next year would be a positive for U.S. markets.

Rate of Change in the Markets

Information moves instantly in our hyper-connected, always-online world. Predictably, financial markets react quicker too, which can leave the average investor feeling nauseous. Just like the instant "hot takes" we see on social media each day, these quick market moves are often incorrect, overzealous, or too reactionary, once we have the benefit of more information & a little bit of hindsight. A few market watchers have opined that market cycles are being sped up as the pace of information flow increases, and there is probably some truth to that. A core belief that we have, and one we want to instill in you is that when markets move fast, do the opposite. Slow down your decision making. Move incrementally, rather than drastically.

Famed investor Howard Marks likes to say that investors have a terrible habit of extrapolating the current investment backdrop way out into the future. It happens all the time. During 2020, investors priced Zoom Communications like we were never having in-person meetings again. 18 months later and barely removed from the pandemic, Zoom shares have now lost 78% of their value from the high water mark.

Right now, investors are acting like we're going to have runaway inflation & significantly higher interest rates for the next decade. We believe that investors anticipating hyper-inflation & another great depression are likely to end up disappointed. Investors that are able to see beyond the current headlines of the day, and realize that things are likely to return to a more normal environment, will reap the rewards for being patient and level-headed.