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Allocation Change – Increasing Duration

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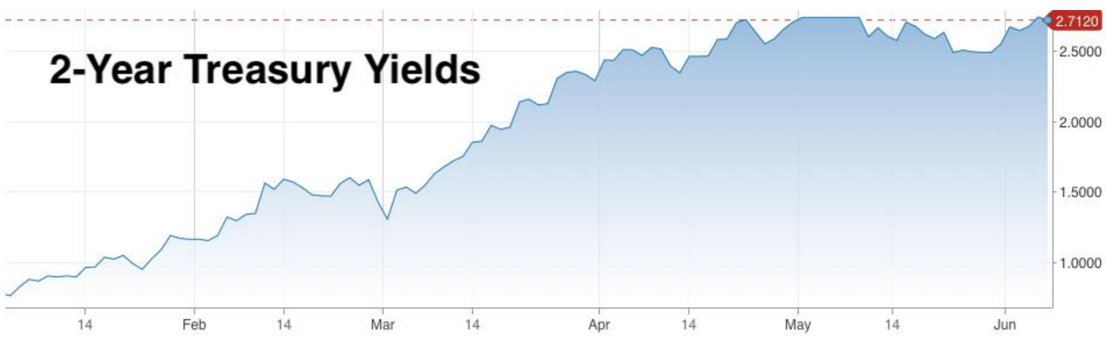
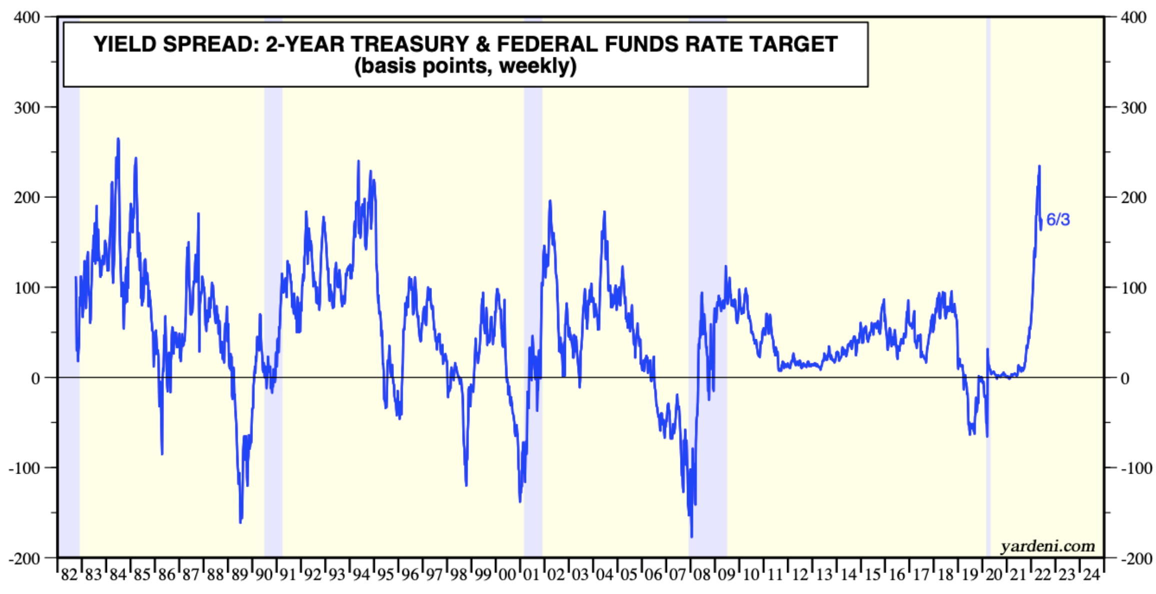
We have increased the duration (interest-rate risk) in the Core Portfolios. As a reminder, duration makes money when interest rates move lower and loses money when interest rates rise. On March 1st, we lowered the duration in the Core Portfolios to their lowest-ever levels. The Russian invasion and subsequent war on Ukraine created a fear-driven investor stampede for the relative safety of U.S. Government Bonds. 10-Year Yields dropped more than 30 basis points to 1.70%, despite the backdrop of higher inflation and a tightening Federal Reserve. We expressed our reasoning for lowering duration to all-time lows as "we've come to the realization that interest rates are simply too low to provide their traditional levels of protection".

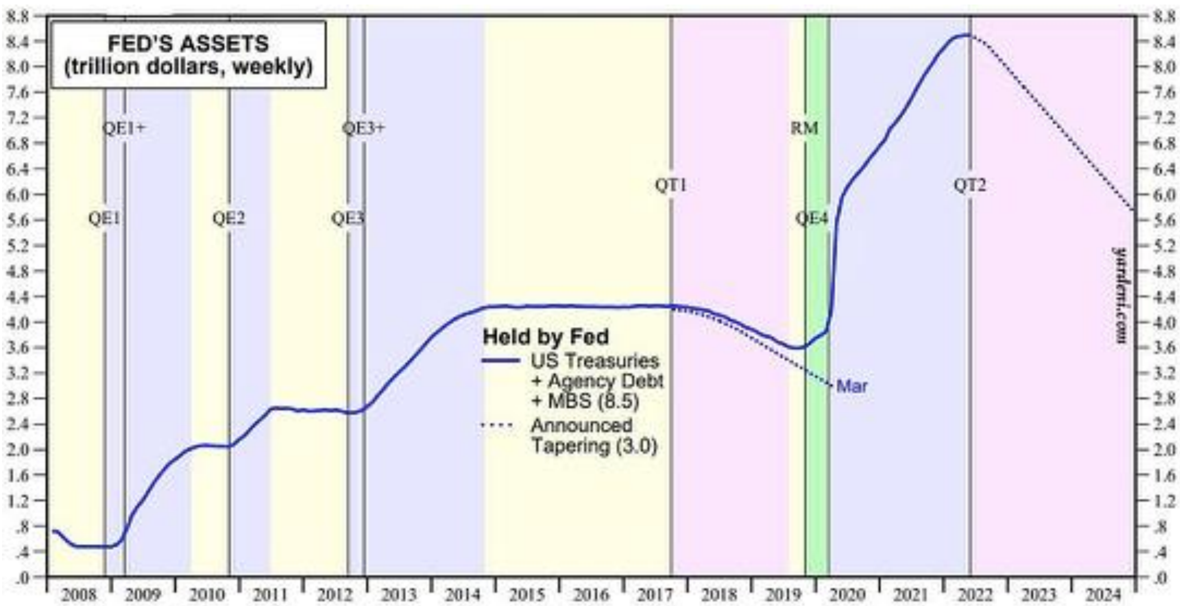
Despite the atrocity of the war investor fear eventually waned, and once again investors normalized the abnormal. 10-Year Yields have risen considerably since March 1st and are now above 3%. This is near the top end of our expected trading range for 10-Year Yields over the next year. 2-Year Yields have increased from near zero to 2.75% YTD.



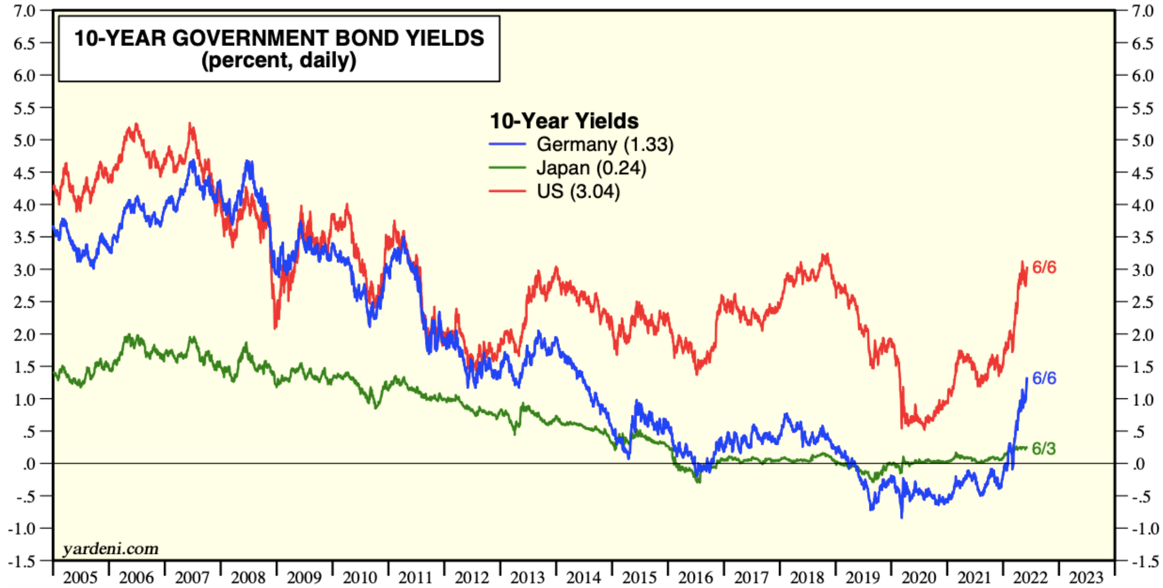
Specifically, we have reinvested custodial cash positions into both shorter-term and longer-term Government Bonds. The reasons are three-fold; Interest rates have risen enough that bonds are once again providing portfolio protection through negative correlation, we now see interest rates on 2-Year Bonds and longer as fairly valued, and the slope of the front-end of the yield curve has steepened considerably. This means the income component (carry) of owning bonds instead of cash has become greater. 2-Year Treasury Bonds now offer a 2% yield advantage over cash. 10-Year Bonds offer a 2.25% advantage.



Another likely reason for the increase in bond yields is the announcement by the Fed of "quantitative tightening". This has spooked bond investors. Continuing our recent quest to start our own dictionary, we will argue that quantitative tightening should be called "quantitative nothing". The Fed announced it is reducing its balance sheet holdings of Government Bonds. *Quantitative tightening* would be selling these securities. That's not what the Fed is doing. The Fed is simply not repurchasing these securities as they mature off their balance sheet. Hence, *quantitative nothing* is the more appropriate term. The chart below shows the expansion of the Fed's balance sheet during quantitative easing (going from \$3.6 Tln to \$8.4Tln during the pandemic) and the projection of their balance sheet during quantitative nothing. (Blue shaded areas are quantitative easing periods, yellow shaded areas are ambiguous periods, pink shaded areas are quantitative tightening/nothing periods.)



Lastly, there continues to be a demand by global investors for U.S. Bonds. Relatively higher U.S. Bond Yields coupled with a strengthening U.S. Dollar continue to provide international investors with attractive returns. This demand has consistently anchored the spread between global yields and domestic yields.



We continue to expect to be more active than usual in the management of your portfolios. You have seen, and likely will continue to see, more frequent adjustments to your portfolio allocations due to high volatility creating short-term market disequilibrium.

We will keep you updated,

The Mommaerts Mahaney Team

Jon C Mommaerts, CFP®: Jon is a Principal of Mommaerts Mahaney Financial Services, Inc. He has over 30 years of experience working with professionals and those about to retire. He is a member of the Financial Planning Association, as well as a member of the Preferred Financial Advisors.

J. Matthew Tuccini, CFP®: Matt has over 17 years of experience working in the financial services industry with vast experience in retirement planning, tax strategies, and financial planning.

Robert Kea, CFA: Bob has over 30 years of experience in portfolio management. He was a founding member and Co-Head on Putnam's Asset Allocation Group, which managed $12Bn in both retail and institutional assets.

Jason Rolling, Financial Advisor: Jason has been in the financial services industry for the past 15 years. His financial experience includes retail banking, consumer & commercial lending, bank management at the local, regional and SVP level, wealth management, and financial planning.

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Mommaerts Mahaney Financial Services, Inc. provides advisory services through ERTS Wealth Advisors, LLC, a registered investment advisor.
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