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Resolute Connections

There has been a lot of talk about the Federal Reserve and whether it will raise interest rates three times this year, or maybe four, and the impact on in the investment markets. *The History of Bond Rates—Past as Prologue?* gives a brief history of bonds during periods of rising and falling rates which may help to explain some of the recent market volatility. *Uneven Erosion* discusses a related topic, one the Federal Reserve focuses on when it considers raising interest rates, inflation, and how it can impact you.

Also in the news lately is a blast from the past: trade tariffs, trade wars and who wins-who loses from trade tariffs. The article *Much Ado About…*, attempts to determine whether all the hot air being generated by the discussion of the 'Trump Tariffs' is, as the titles say much ado about nothing. And if you are on Medicare you might want to check out *IRMAA's Rise* as the article summarizes the new surcharges that upper-income retirees will have to pay for Medicare Part B.

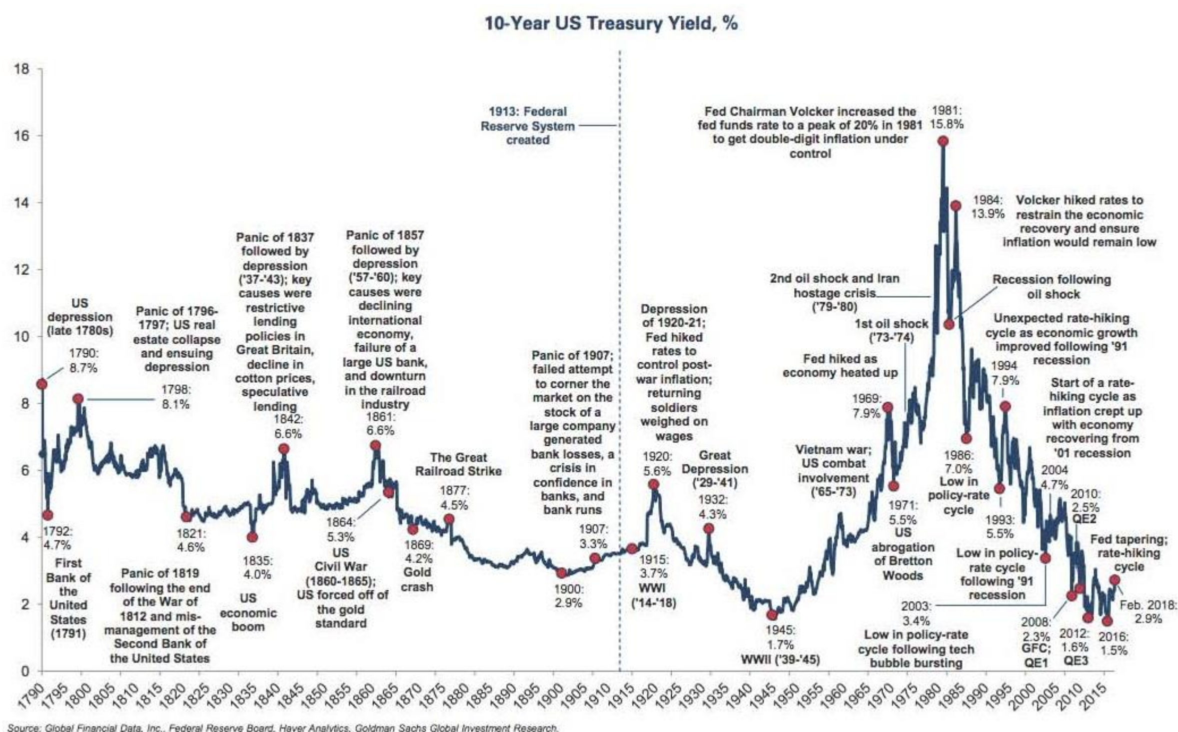
If you have any questions about anything we have covered in the articles below, or a specific situation please feel free to give us a call, or visit our website, www.ResoluteFinancial.com.

The History of Bond Rates—Past as Prologue?

Although stocks get the most attention, bonds are significant contributors, both to your total return on your portfolio, and also to the prices of every other investment. Bonds compete with stocks and real estate for investment dollars; when their yields

are high, it causes a shift in demand away from those “risk” assets, and tends to lower the price of a dollar of corporate earnings.

When you look at the long-term history of bonds, shown in the graphic, you see that the time period following World War II can be divided into two distinct periods. Since 1945, when 10-year Treasury yields bottomed out at 1.7% a year, there was a long period when bonds became more competitive with stocks. That period ended with an all-time high for 10-year Treasuries of 15.8%. The latter part of the run-up was not a great time to be invested in stocks, with the 1974-75 bear market following and then leading a long sideways doldrums in share prices.



The annotated chart doesn’t note that the long bull market in stocks started the year that bond rates started their long decline, but it does show that since 1981, bonds have become less and less competitive with other asset classes. The recent jump in rates is actually in line with other incidental bumps that would give way to sharp declines in a long downward trend that has lasted more than 35 years.

Many analysts worry that the trend could turn around—although, to be fair, some of them have been boldly predicting a rise in bond rates for the better part of seven years. But the underlying issue is that when bond yields DO eventually turn back

upwards again, the result could be the same as it was during the run-up in the 1970s: a long, extended period where stock returns underperformed their long-term averages.

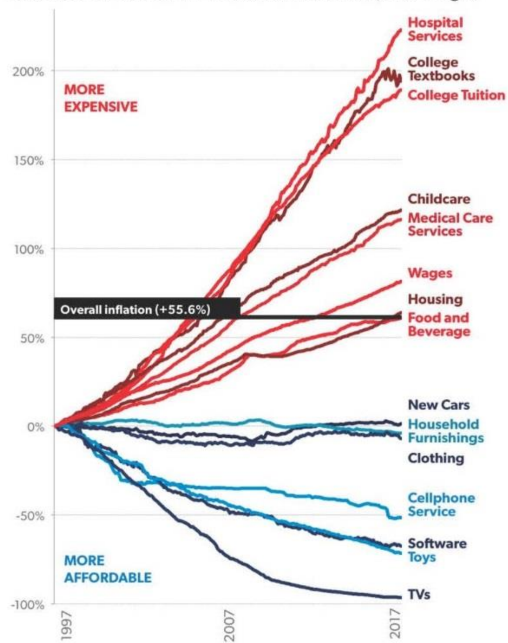
Whatever conclusion you draw about the future, the chart is surely one of the most interesting annotated guides to bond market history most of us have ever seen.

Uneven Erosion

You're routinely told that inflation is your worst long-term enemy to your financial health. Inflation gradually, slowly reduces the value of your retirement dollars, which is why, if your money sits in your mattress, it will buy less when you take it out than it did when you put it in.

But inflation is an inconstant danger; that is, the rise in prices happens unevenly over all the various things that you might be interested in buying, and indeed in some cases the prices go down. Think of the cost of a 50 inch TV screen today vs. what you could buy with the same money 20 years ago.

The graphic shows that technology items—cars, TVs, cell phones and software—have actually become less expensive over the past 20 years, along with things that might surprise you: household furnishings and clothing. Food and beverage costs have risen roughly at the rate of overall inflation, while things like college tuition, college textbooks and hospital services (which are utilized more often by retirees than any other citizen cohort) have become dramatically more expensive.



The point? Your inflation rate might be different from your neighbor's, depending on what you're buying. And when you set aside money for the future, know that buying your grandchild's college education will require you to set aside more than the new TV that you might buy as a graduation present.

Much Ado About...

You may have heard about the "Trump Tariffs;" that is, the proposed 25% surtax on all steel imports coming into the U.S. from foreign manufacturers, and a similar 10% surtax on aluminum. The markets certainly noticed; they fell dramatically after the announcement, as investors feared that the move would spark a global trade war.

The proposed tariffs would be enacted under a loophole in the World Trade Organization rules, which generally prohibit countries from straying from their agreed-upon trade arrangements, but permit "safeguard" responses to a sudden, unforeseen and damaging import surge that could seriously damage a particular industry. Internally, the Trump Administration plans to circumvent Congress by imposing the tariffs under Section 232 of a 1962 U.S. law that allows the President to

take unilateral action based on national security concerns. The last time Section 232 was invoked was back in 1975, when President Ford imposed taxes on foreign oil.

The initial panicked market reaction cooled after it became clear that the tariffs may actually never be imposed—for several reasons. One is that there has actually been no unforeseen or damaging import surge in aluminum or steel, or really any surge at all. The U.S. already imposes 169 trade taxes on various types of imported steel, including 29 on Chinese products that were imposed during the Obama Administration.

Another is that the national security concern is not easy to justify, particularly after the President signaled that he would remove these tariff measures on Mexico and Canada—two of the largest exporters of steel to the U.S.—if those countries come back to the table to renegotiate the North American Free Trade Agreement. Wouldn't that put the country back at risk all over again?

A third is that the tariff is a bit like shooting at the enemy and hitting one of your fellow hunters instead. President Trump specifically called out China for destroying the U.S. steel industry and dumping artificially-priced steel on U.S. markets. But China is only the 11th largest source country to the U.S., accounting for just two percent of total U.S. steel imports last year. The Chinese steel industry doesn't depend on the U.S. market; America is China's 26th biggest import customer, well behind South Korea, Vietnam, the Philippines, Thailand and Indonesia.

Who would be hurt most by the tariff? Canada is by far the biggest source of manufactured steel, accounting for 17% of U.S. imports. Other U.S. allies like South Korea, Mexico and Brazil are all significant sources for U.S. manufacturers.

Finally, if the effort is to boost the number of manufacturing jobs in the U.S., the proposal looks like it could seriously backfire. There are approximately 170,000 steel- and aluminum-related jobs in the U.S. currently. But if the measure makes steel and aluminum more costly, it would lower profits for companies that employ more than 6.5 million workers—who are paid to make everything from pickup trucks to canned soup. Worse, the measure opens the doors for the European Union and China to create targeted retaliatory measures like slapping significant tariffs on

Harley Davidson motorcycles, bourbon and a variety of agricultural products that depend on exports—further endangering American jobs.

So while the sweeping tariff proposals make headlines, the reality is likely to be a quiet walking back from the proposal altogether or, to save face, a tariff that makes a lot of exceptions and grandfathers existing long-term contracts.

IRMAA's Rise

Higher income retirees cannot be faulted for thinking that Washington has a hand in their pocket. In 2018, the Medicare Access And CHIP Reauthorization Act lowered the threshold on which Medicare recipients pay an income-related monthly adjustment amount (IRMAA) to their Medicare Part B premiums. Previous to this year, the highest premium kicked in for individuals with $214,000 a year; in 2018, the threshold goes down to $160,000, at which point the monthly cost goes up almost $300 over what less-wealthy people are required to pay.

The new Bipartisan Budget Act of 2018 added a new surcharge for a new income tier; individuals earning more than $500,000, or joint filers earning more than $750,000. Their surcharge goes up to $321.40, above the $134.00 monthly premium. With two increases in two years, you can see where older Americans in the higher income brackets are destined to be paying roughly what they would in the private markets for their health insurance coverage.

Source:

Bob Veres Inside Edition Newsletter

For more information on these topics or for a free consultation, contact Resolute Financial, LLC at (978) 463-8771 ext. 1003.

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