BH | Beech Hill Advisors

September 30, 2023

Third Quarter Fixed Income Letter to Clients

Interest rates rose much higher in September amid continued inflation worries fueled by ongoing strength in the labor market and higher oil prices. The Federal Reserve is maintaining its higher rates for longer language. And while strong job creation, increasing supply of available workers, and moderate wage growth are the characteristics of a soft landing, the market's higher interest rate move makes it clear that the market is increasingly concerned that the Fed can orchestrate a soft landing. If economic activity does weaken, rates should then move lower.

Tax-Free Municipal bonds posted negative total returns in September along with much greater volatility, as did all fixed income securities. And while the recent sell-off was much larger and more volatile than this asset class has seen in over a decade, given the events driving the markets, the volatility may absolutely continue in the near term.

The total return of the S&P Municipal Bond Index was –3.40% for the third quarter, and –1.05% for the year-to-date total return.

Bond yields are now at high levels which we have not seen in over 20 years. So, for the buy-and- hold investor with the primary goal of current income, now is an opportunity to purchase some bonds with a relatively longer duration than they've been willing to accept for a long time now. That said, in our view, given the current rate environment and the inverted yield curve, bonds with maturities of 10 years or less should still make up the bulk of investor portfolios.

Evan Slater
Fixed Income Portfolio Manager