RSW INVESTMENTS

Higher Yields to Come? (3/6/15)

We are positioned, welcome, and patiently await the opportunity to exchange lower volatility (shorter maturity/lower yielding) bonds, for higher volatility (longer maturity/higher yielding) bonds. As is typical, this opportunity should coincide with maximum investor fear and ugly newspaper headlines.

The Duration of our Composites is at or Near the Lowest Levels in 10 Years. Why?

- While holding the opinion that interest rates should remain low (outlook since 2006) in the future, markets rarely move in a straight line or stay put.
- In general, our management team has been shrinking the level of interest rate sensitivity (duration) in our client portfolios, and/or allowing the duration to lessen through the passage of time.
- As we have all watched, markets of all "stripes" move from overbought (everyone is optimistic) to oversold (everyone is pessimistic). The interest rate markets are no different.
- As we have stated on many occasions over the past years, the economy cannot withstand meaningfully and lasting periods of higher interest rate levels.
- While all eyes are focused on what the Federal Reserve may or may not do, longer term bond yields have begun their ascent higher.
- The question now is whether or not we are in the neutral or oversold part of the trading range.
- To us, it is likely that yields can rise further. Using U.S. 10-year Treasury bonds as a proxy, it is possible that yields could rise in the 2.60% to 3% range before the advance is complete.

I look forward to reporting to you in the near future.

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