BENJAMIN F. EDWARDS®
INVESTMENTS for GENERATIONS®

One North Brentwood Boulevard, Suite 850
St. Louis, Missouri 63105
TF (855) 382-1600
www.benjaminfedwards.com
Member SIPC

Investment Insights Monthly

From The Desk of Bill Hornbarger, Chief Investment Officer

August 2023

Bond Yields on the Move

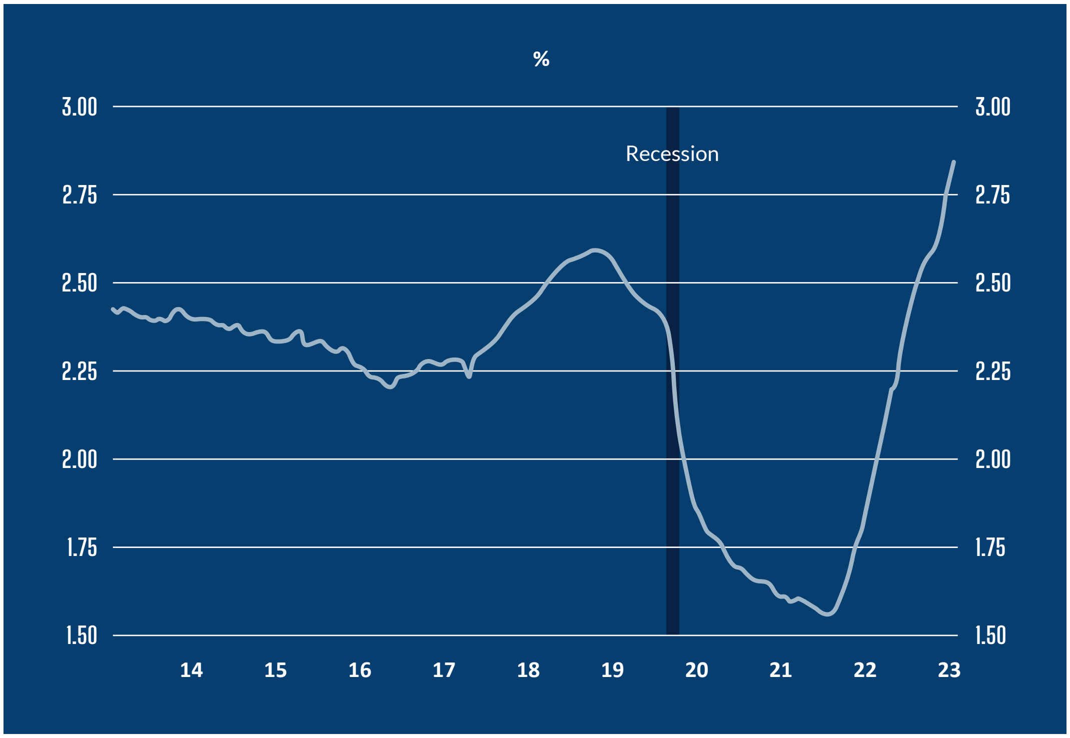
U.S. Treasury yields moved sharply higher in the second half of July and the first week of August. The 10-year Treasury traded at a yield of 4.19%, threatening the high for this tightening cycle set last October at 4.24%. On August 1, Fitch Ratings downgraded the credit rating of the United States from AAA to AA+, citing the repeated last-minute debt ceiling deals and the projected fiscal deterioration over the next several years. Standard & Poor's had taken the same action for similar reasons in 2011. The announcement pushed yields to a new high for the year and continued the pressure the bond market has faced in 2023. The move in yields was seemingly sparked by Fitch's decision to downgrade the credit rating of the U.S., but multiple factors contributed to the selloff.

In addition to the debt downgrade, the Treasury is facing an increase in financing needs and laid out plans to increase auction sizes in early August as part of the quarterly refunding announcement. By the end of the current quarter (October 2023), the auction sizes of the 2-, 3-, 5- and 7-year notes will increase by $9 billion, $6 billion, $9 billion and $3 billion, respectively, with promises of additional future increases.

While the Treasury is issuing more debt, the cost of that debt is also rising. In January 2022, the average interest rate of public debt touched the lowest reading on record at 1.56%. Since then, it has increased for 18 consecutive months and in July stood at 2.84%. Interest expense now accounts for approximately 10% of U.S. government spending to date in fiscal-year 2023.

One North Brentwood Boulevard, Suite 850
St. Louis, Missouri 63105
TF (855) 382-1600
www.benjaminfedwards.com

Public Debt Cost Has Increased for 18 Consecutive Months
% Public Debt Average Interest Rate: Interest-Bearing Debt



Source: U.S. Treasury/Haver Analytics

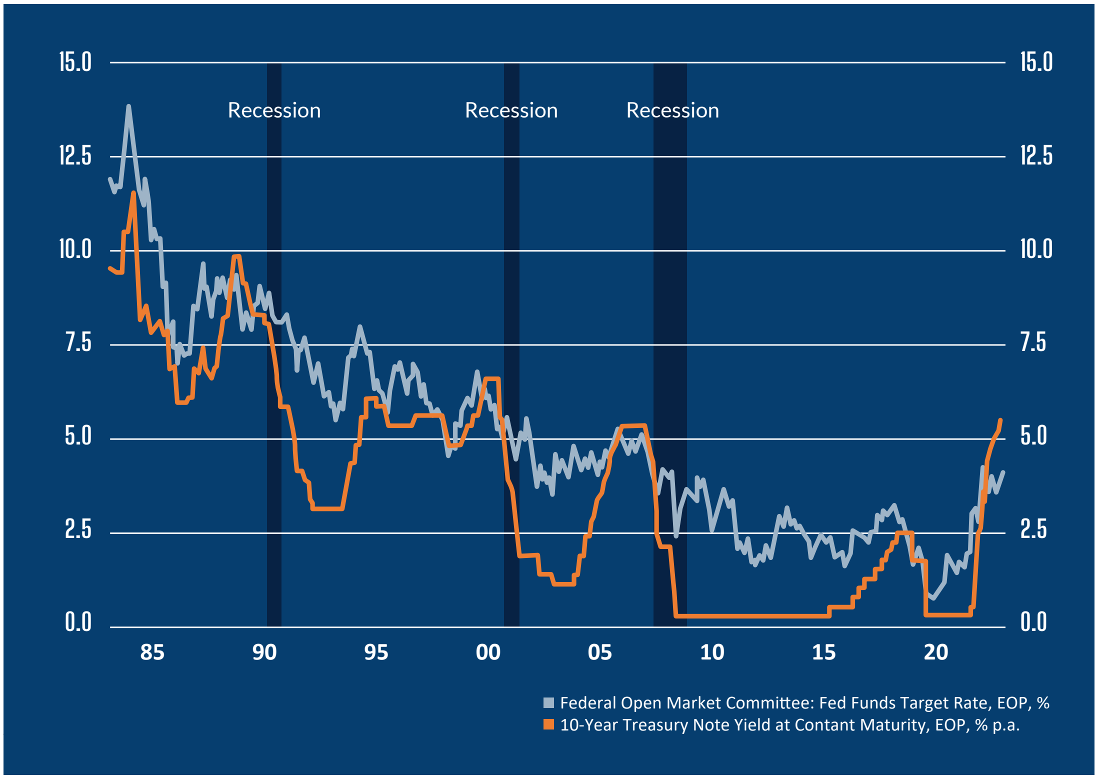
For more than a decade following the Global Financial Crisis (GFC), domestic bond yields were anchored by very low inflation, 0% interest rates, quantitative easing and declining global yields. Those conditions have uniformly reversed course, and what has been somewhat surprising to many is that 525 basis points of cumulative tightening and mid-to-high single-digit inflation hasn't resulted in even higher yields. Expected bond-market volatility measures remain elevated, consistent with the uncertainty surrounding the bond market.

A couple of factors indicate that this move higher in yields could be nearing an end. First is the shape of the yield curve. A deeply inverted yield curve is a sign that future expected short-term rates will be lower (the expectations hypothesis) than they are currently. This market-based indicator often signals a recession and easier U.S. Federal Reserve (Fed) policy. It is also important to remember that the financial markets are forward looking and that bond yields historically have peaked prior to the last move in a Fed tightening cycle. While opinions are split whether the Fed is finished, it is commonly held that we are close to the end of this cycle, and if history holds true, we are near/at a peak in bond yields.

BENJAMIN F. EDWARDS®
INVESTMENTS for GENERATIONS®

One North Brentwood Boulevard, Suite 850
St. Louis, Missouri 63105
TF (855) 382-1600
www.benjaminfedwards.com

Are Bond Yields Nearing Their Peak?



Source: Federal Reserve Board/Haver Analytics

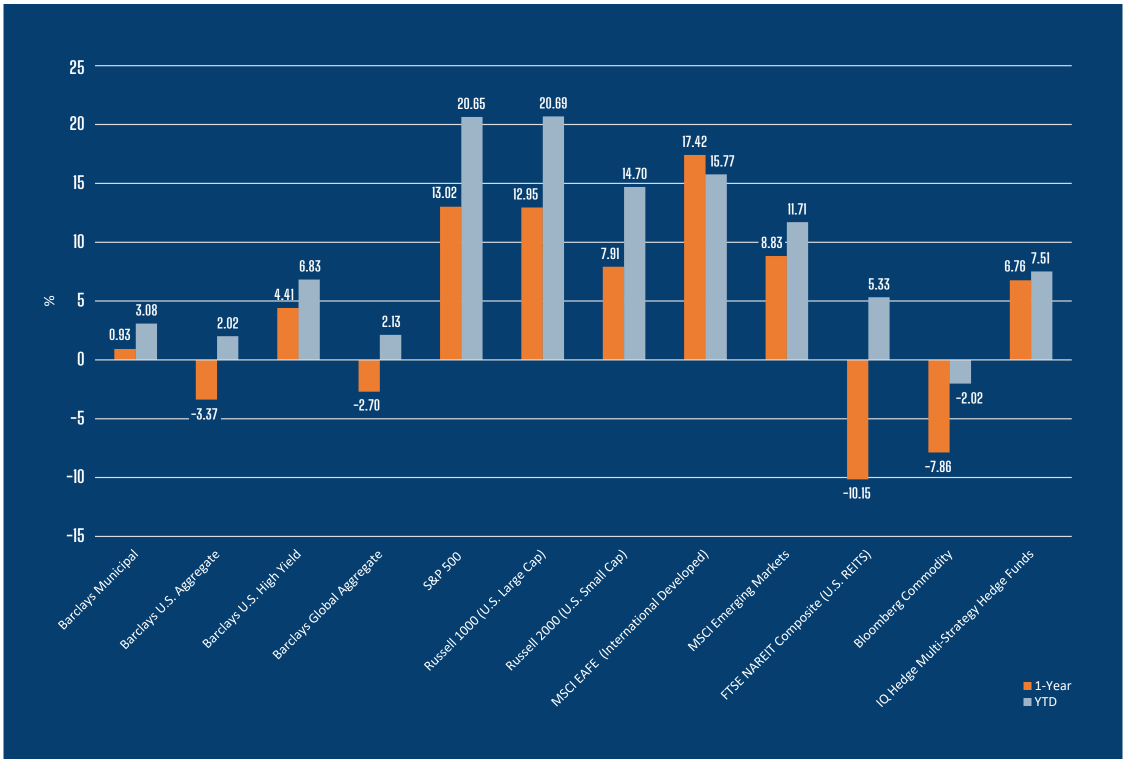
From a portfolio construction perspective, this move higher in bond yields increases the prospects of forward returns from the asset class, and many areas of the fixed-income market now have positive real (after inflation) yields, for the first time since the GFC. Bonds are now able to fulfill their primary portfolio role of positive real returns as well as continuing to offer the properties of equity-market risk mitigation.

In closing, we would remind investors that while the very high short-term yields are attractive and represent something of an “easy button” as a hiding place in an uncertain environment, those will be the first and most impacted when Fed policy reverses. In acknowledgement of the risk of recession and easier Fed policy, we would suggest adding some duration to portfolios to lock in the current yield levels. In our opinion, the 2- through 5-year portion of the yield curve offers a good compromise for investors unwilling to take on too much interest-rate risk.

One North Brentwood Boulevard, Suite 850
St. Louis, Missouri 63105
TF (855) 382-1600
www.benjaminfedwards.com

Asset Class Returns as of July 31, 2023

Comparing Recent 1-Year and Year-to-Date Total Returns



Source: Conway Investment Research

Fixed Income

- Treasury and sovereign debt yields moved higher in July, leading to losses in core fixed income. Municipal bonds bucked the trend, fueled by strong technical factors.
- Credit spreads tightened in July, leading to gains in high yield, leveraged loans and emerging-market debt.
- Bonds outside the U.S. faced the headwind of higher rates but benefited from the sharp decline in the U.S. dollar.

Equities

- U.S. equities posted strong gains last month, led by small caps.
- Small caps beat large caps by a wide margin in July.
- Value and growth performed roughly in line with each other across large caps last month, but value led growth sharply across small caps.
- The Nasdaq leads the way year to date with a 37%+ gain.
- Non-U.S. equities posted solid gains in July, led by the rebound in China and emerging markets.
- Value outperformed growth outside the U.S., and small caps beat large caps.
- Within emerging markets, all major regions participated in the rally; Asia and Eastern Europe performed best.
- EAFE markets lagged on a local basis, but the weaker U.S. dollar provided a big boost.

Alternatives

- Hedge funds broadly gained 2.2% in June as all main strategies posted positive returns. Equity long/short rose 2.9%, event-driven increased 2.8%, macro jumped 1.5% and relative value added 0.9%.
- Real assets posted strong returns last month with REITs gaining 5.7% and commodities rebounding 4%.

BENJAMIN F. EDWARDS®
INVESTMENTS for GENERATIONS®

One North Brentwood Boulevard, Suite 850
St. Louis, Missouri 63105
TF (855) 382-1600
www.benjaminfedwards.com

July 31, 2023	MTD	QTD	YTD	1-Year	3-Year	5-Year	10-Year
Fixed Income Indices							
Barclays U.S. Treasury Bill 1-3 Month	0.44%	0.44%	2.78%	4.09%	1.45%	1.59%	1.00%
Barclays Municipal	0.40%	0.40%	3.08%	0.93%	-1.00%	1.87%	2.81%
BBgBarc U.S. Govt/Credit Intermediate	0.42%	0.42%	1.56%	0.42%	-0.81%	1.21%	1.01%
Barclays U.S. Aggregate	-0.07%	-0.07%	2.02%	-3.37%	-4.46%	0.75%	1.50%
Barclays U.S. High Yield	1.38%	1.38%	6.83%	4.41%	2.04%	3.42%	4.38%
S&P/LSTA Leveraged Loan	1.29%	1.29%	7.85%	9.79%	6.08%	4.25%	4.10%
Barclays Global Aggregate	0.69%	0.69%	2.13%	-2.70%	-5.74%	-0.92%	0.14%
JPM GBI EM Global Diversified	2.88%	2.88%	10.89%	14.25%	-1.46%	0.49%	-0.22%
U.S. Equity Indices							
DJ Industrial Average	3.44%	3.44%	8.55%	10.62%	12.65%	9.30%	11.19%
S&P 500	3.21%	3.21%	20.65%	13.02%	13.72%	12.20%	12.66%
NASDAQ Composite (Price)	4.05%	4.05%	37.07%	15.78%	10.11%	13.34%	14.74%
Russell 1000	3.44%	3.44%	20.69%	12.95%	13.22%	11.92%	12.44%
Russell 1000 Growth	3.37%	3.37%	33.36%	17.31%	12.19%	15.23%	15.53%
Russell 1000 Value	3.52%	3.52%	8.82%	8.28%	14.14%	8.01%	9.02%
Russell Mid Cap	3.97%	3.97%	13.33%	8.75%	11.82%	8.77%	10.13%
Russell 2500	4.97%	4.97%	14.20%	8.05%	12.64%	7.18%	9.22%
Russell 2000	6.12%	6.12%	14.70%	7.91%	12.01%	5.09%	8.17%
Russell 2000 Growth	4.68%	4.68%	18.86%	11.58%	6.52%	4.82%	8.54%
Russell 2000 Value	7.55%	7.55%	10.24%	3.94%	17.46%	4.69%	7.40%
Non-U.S. Equity Indices							
MSCI World	3.38%	3.38%	19.34%	14.07%	12.20%	9.68%	9.89%
MSCI ACWI	3.69%	3.69%	18.48%	13.49%	10.93%	8.77%	9.20%
MSCI ACWI Ex-U.S.	4.10%	4.10%	14.36%	14.03%	7.61%	4.35%	5.21%
MSCI EAFE	3.25%	3.25%	15.77%	17.42%	9.79%	5.06%	5.70%
MSCI EAFE Growth	1.97%	1.97%	16.73%	13.95%	5.75%	5.78%	6.53%
MSCI EAFE Value	4.57%	4.57%	14.91%	21.11%	13.68%	3.92%	4.63%
MSCI Europe	3.08%	3.08%	17.73%	20.40%	11.08%	5.77%	5.89%
MSCI Japan	3.02%	3.02%	16.66%	15.61%	7.72%	4.05%	5.84%
MSCI AC Asia	5.01%	5.01%	12.12%	9.79%	3.22%	2.90%	5.43%
MSCI EAFE Small Cap	4.45%	4.45%	10.60%	8.45%	6.52%	2.47%	6.43%
MSCI ACWI Ex-U.S. Small Cap	5.13%	5.13%	12.66%	10.76%	8.67%	3.94%	6.18%
MSCI Emerging Markets	6.29%	6.29%	11.71%	8.83%	1.85%	2.10%	3.85%
MSCI EM Asia	6.32%	6.32%	10.77%	7.09%	0.49%	2.66%	5.53%
MSCI China	10.86%	10.86%	4.88%	1.98%	-9.76%	-2.68%	3.88%
MSCI EM Eastern Europe	7.47%	7.47%	34.68%	45.29%	-31.25%	-20.02%	-9.62%
MSCI EM Latin America	5.17%	5.17%	25.07%	31.81%	14.92%	4.43%	2.12%
MSCI EM Small Cap	6.64%	6.64%	18.08%	18.06%	13.33%	6.49%	5.63%
MSCI Frontier Markets	7.09%	7.09%	13.05%	3.71%	6.80%	1.79%	3.21%
Hedge Fund Indices							
IQ Hedge Multi-Strategy	2.01%	2.01%	7.51%	6.76%	1.56%	2.08%	2.75%
Real Assets Indices							
FTSE NAREIT Composite	2.11%	2.11%	5.33%	-10.15%	5.57%	4.65%	6.76%
Alerian MLP	5.96%	5.96%	16.23%	22.94%	34.86%	6.03%	1.54%
Bloomberg Commodity	6.26%	6.26%	-2.02%	-7.88%	18.02%	6.47%	-0.52%
S&P Global Infrastructure	2.04%	2.04%	5.93%	2.19%	10.30%	5.36%	6.44%
Other							
CBOE Market Volitility (VIX)	0.29%	0.29%	-37.10%	-36.10%	-17.71%	1.22%	0.13%

Source: Morningstar

One North Brentwood Boulevard, Suite 850
St. Louis, Missouri 63105
TF (855) 382-1600
www.benjaminfedwards.com

The information provided is based on internal and external sources that are considered reliable; however, the accuracy of this information is not guaranteed. This piece is intended to provide accurate information regarding the subject matter discussed. Investing involves risk including the potential loss of principal. No investment strategy, including asset allocation and diversification, can guarantee a profit or protect against loss in periods of declining values. Past performance is no guarantee of future results. Indexes are unmanaged and investors are not able to invest directly into any index. This information does not constitute a solicitation or an offer to buy or sell any security mentioned.

Equity investments refer to buying stocks of U.S. companies as well as companies outside of the U.S. The market capitalization of U.S. companies is used to group large, medium (mid) and small companies. The investment return to the owner of stock (shareholder) is in the form of dividends and/or capital appreciation. Shareholders share in both the upside potential and the downside risk. Dividends are not guaranteed and are subject to change or elimination.

There are special risks associated with an investment in real estate, including credit risk, interest-rate fluctuations and the impact of varied economic conditions. Distributions from REIT investments are taxed at the owner's tax bracket.

The return of principal for bond funds and funds with significant underlying bond holdings is not guaranteed. Fund shares are subject to the same interest rate, inflation and credit risks associated with the underlying bond holdings. Lower rated bonds are subject to greater fluctuations in value and risk of loss of income and principal than higher rated bonds. Bond prices fluctuate inversely to changes in interest rates. Therefore, a general rise in interest rates can result in the decline of the value in your investment.

Benjamin F. Edwards® & Co. (BFE) is a dually-registered broker-dealer and investment adviser and member of FINRA and SIPC, and its affiliate Benjamin F. Edwards Wealth Management℠ LLC, d/b/a Edwards Wealth Management℠ (EWM) is an SEC-registered investment adviser. BFE and EWM are affiliates through their common ownership by Benjamin Edwards, Inc. Depending on the context, the name Benjamin F. Edwards® refers to either EWM, BFE or both.