



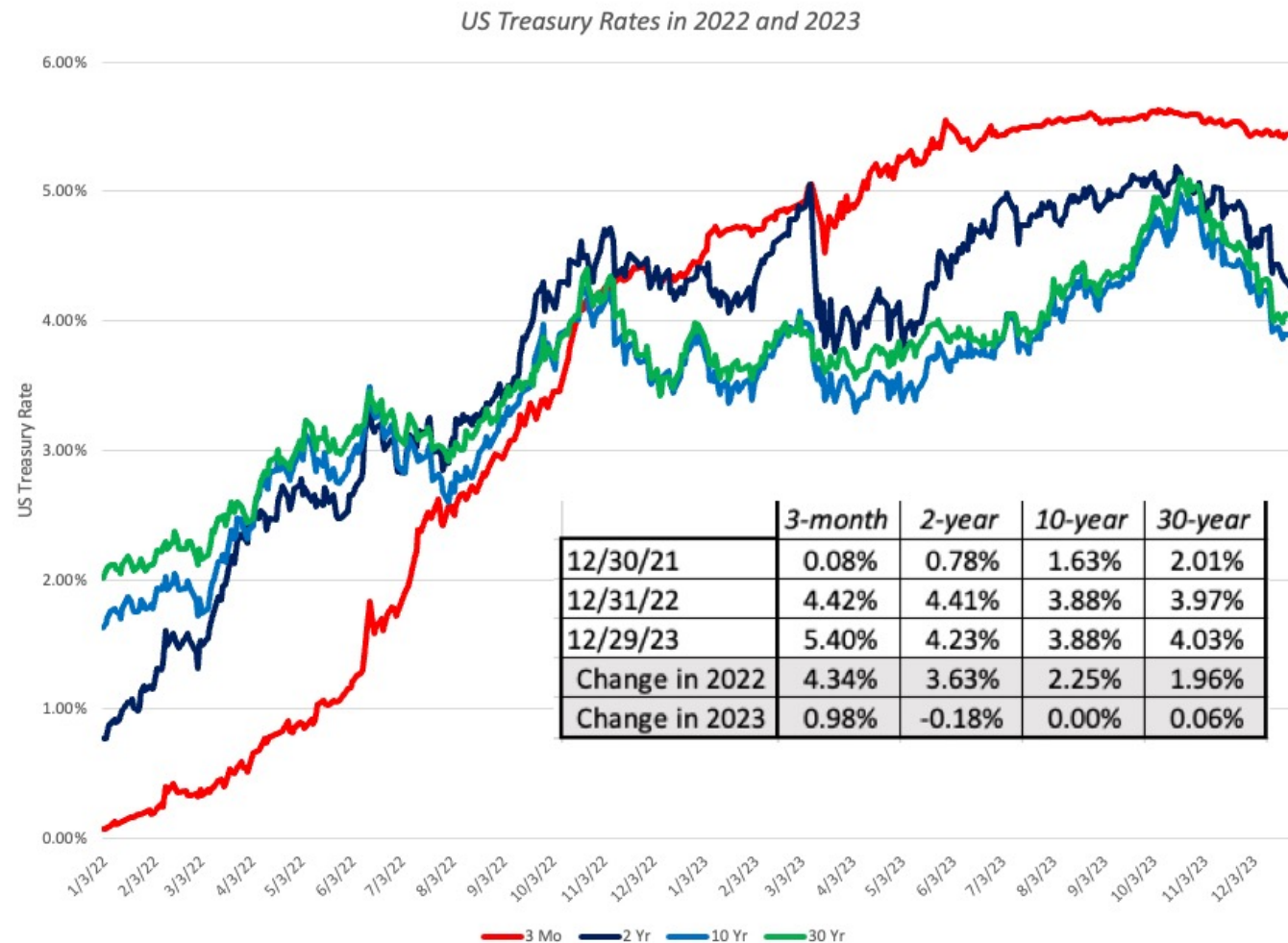
DATA UPDATE 3 FOR 2024: A RULE-BREAKING YEAR FOR INTEREST RATES!

Let's not talk about the Fed!

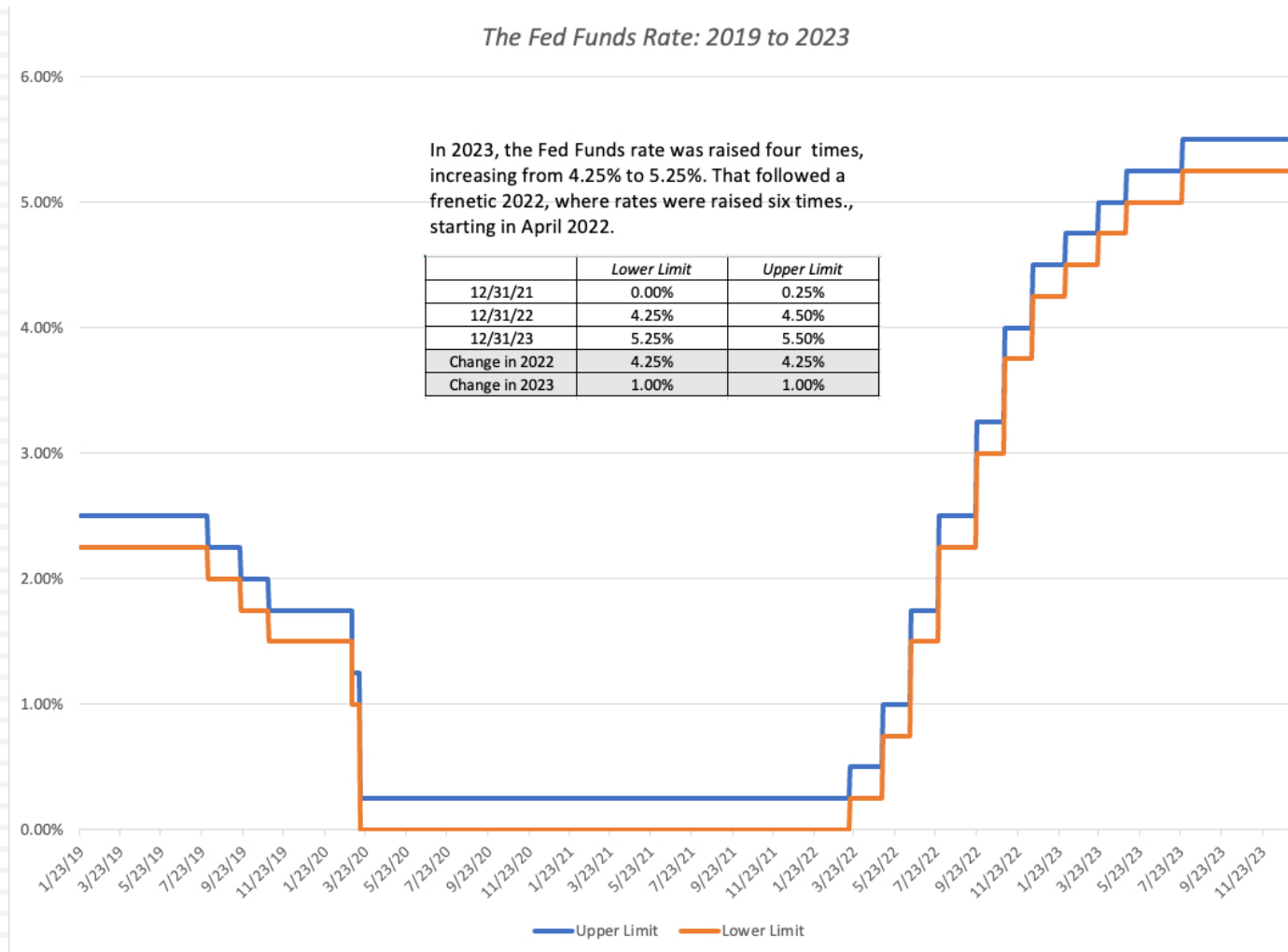
Setting the table..

- In my last post, I looked at equities in 2023, and argued that while they did well during 2023, the returns were uneven, with a few big winning companies and sectors and a significant number of companies not partaking in the recovery.
- In this post, I look at interest rates, both in the government and corporate markets, and note that while there was little change in levels, especially at the long end of the maturity spectrum, that lack of change called into question conventional market wisdom about interest rates.
- in particular, the notions that the Fed sets interest rates and that an inverted yield curve is a surefire predictor of a recession. As we start 2024, the interest rate prognosticators who misread the bond markets so badly in 2023 are back to making their 2024 forecasts, without a hint of self-reflection or doubt.

Government Bond Rates in 2023: US Treasuries...



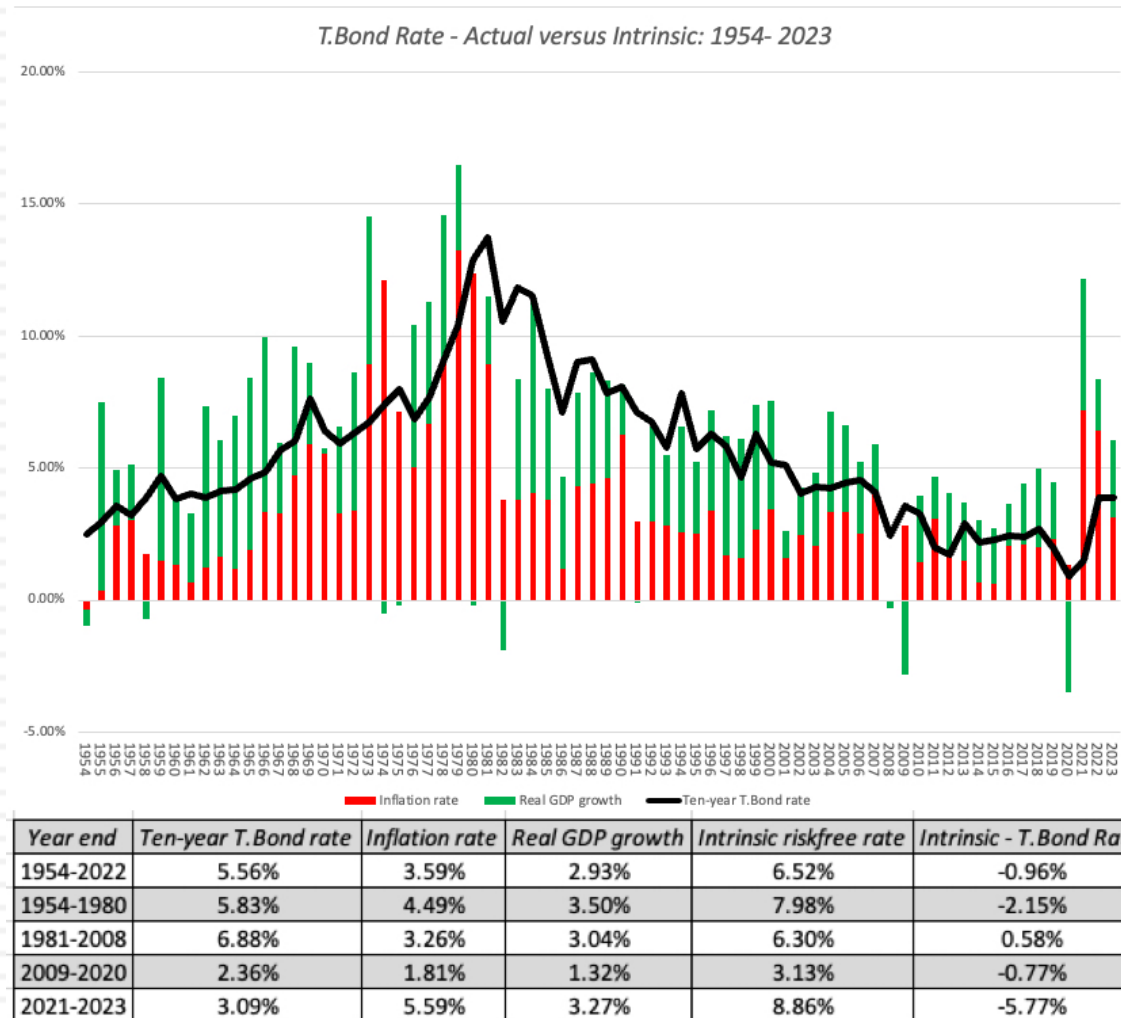
The Fed Effect: Raising Rates?



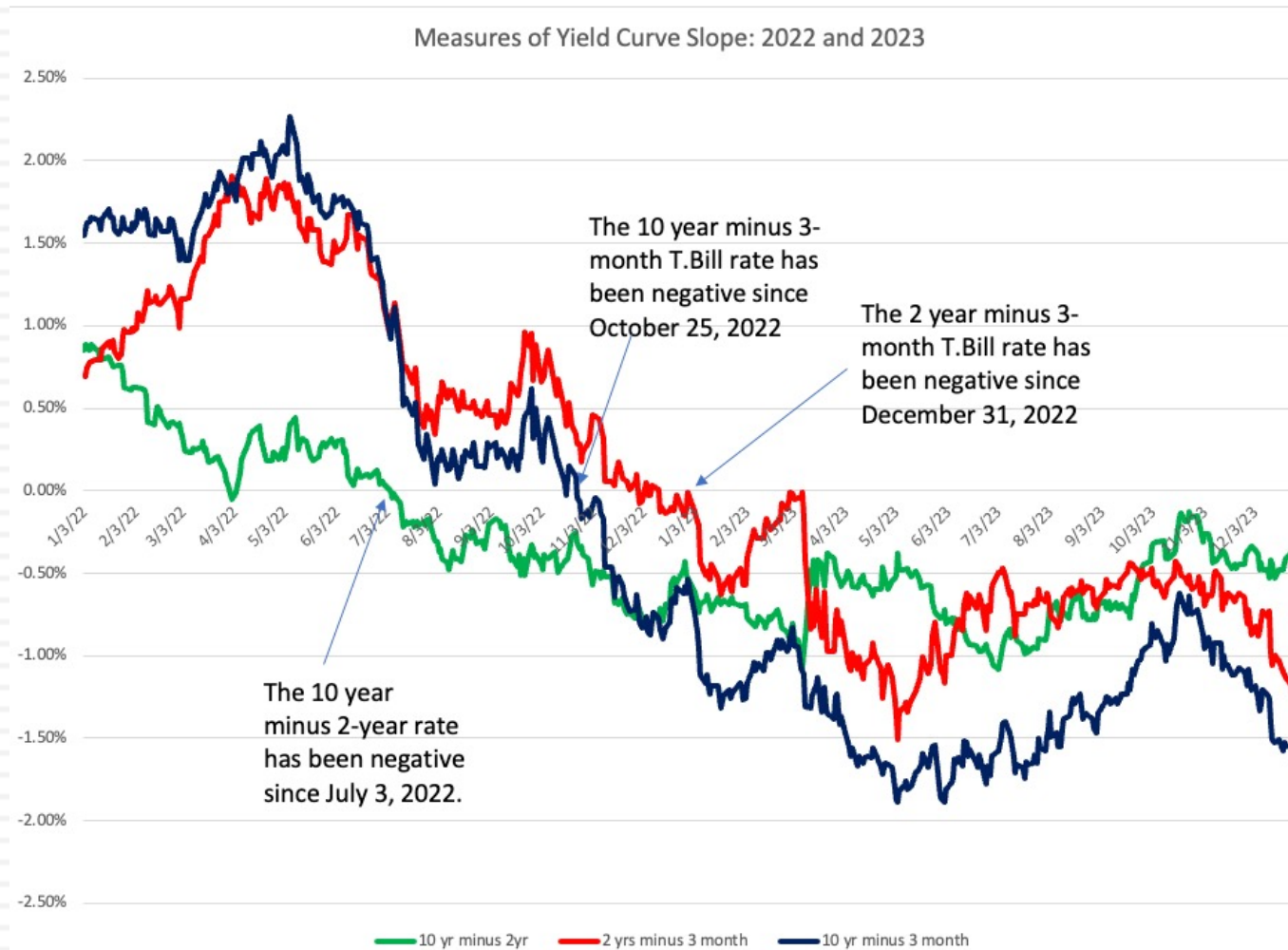
Leader or Follower?

Date	Fed Funds Rate	Fed Funds Rate	US Treasury Rates			Change from last date		
			3 month T.Bill	2-year T.Bond	10-year T.Bond	3 month T.Bill	2-year T.Bond	10-year T.Bond
Start of 2022		0.25%	0.08%	0.78%	1.63%			
3/17/22	Raised 0.25%	0.50%	0.40%	1.94%	2.20%	0.32%	1.16%	0.57%
5/5/22	Raised 0.50%	1.00%	0.85%	2.71%	3.05%	0.45%	0.77%	0.85%
6/16/22	Raised 0.75%	1.75%	1.59%	3.14%	3.28%	0.74%	0.43%	0.23%
7/28/22	Raised 0.75%	2.50%	2.42%	2.85%	2.68%	0.83%	-0.29%	-0.60%
9/22/22	Raised 0.75%	3.25%	3.29%	4.11%	3.70%	0.87%	1.26%	1.02%
11/3/22	Raised 0.75%	4.00%	4.25%	4.71%	4.14%	0.96%	0.60%	0.44%
12/15/22	Raised 0.50%	4.50%	4.34%	4.23%	3.44%	0.09%	-0.48%	-0.70%
Start of 2023		4.50%	4.42%	4.41%	3.88%	0.08%	0.18%	0.44%
2/6/23	Raised 0.25%	4.75%	4.71%	4.44%	3.63%	0.29%	0.03%	-0.25%
3/23/23	Raised 0.25%	5.00%	4.73%	3.76%	3.38%	0.02%	-0.68%	-0.25%
5/4/23	Raised 0.25%	5.25%	5.26%	3.75%	3.37%	0.53%	-0.01%	-0.01%
7/27/23	Raised 0.25%	5.50%	5.51%	4.91%	4.01%	0.78%	1.15%	0.63%
End of 2023		5.50%	5.40%	4.23%	3.88%	-0.11%	-0.68%	-0.13%

The Real Drivers of Interest Rates...



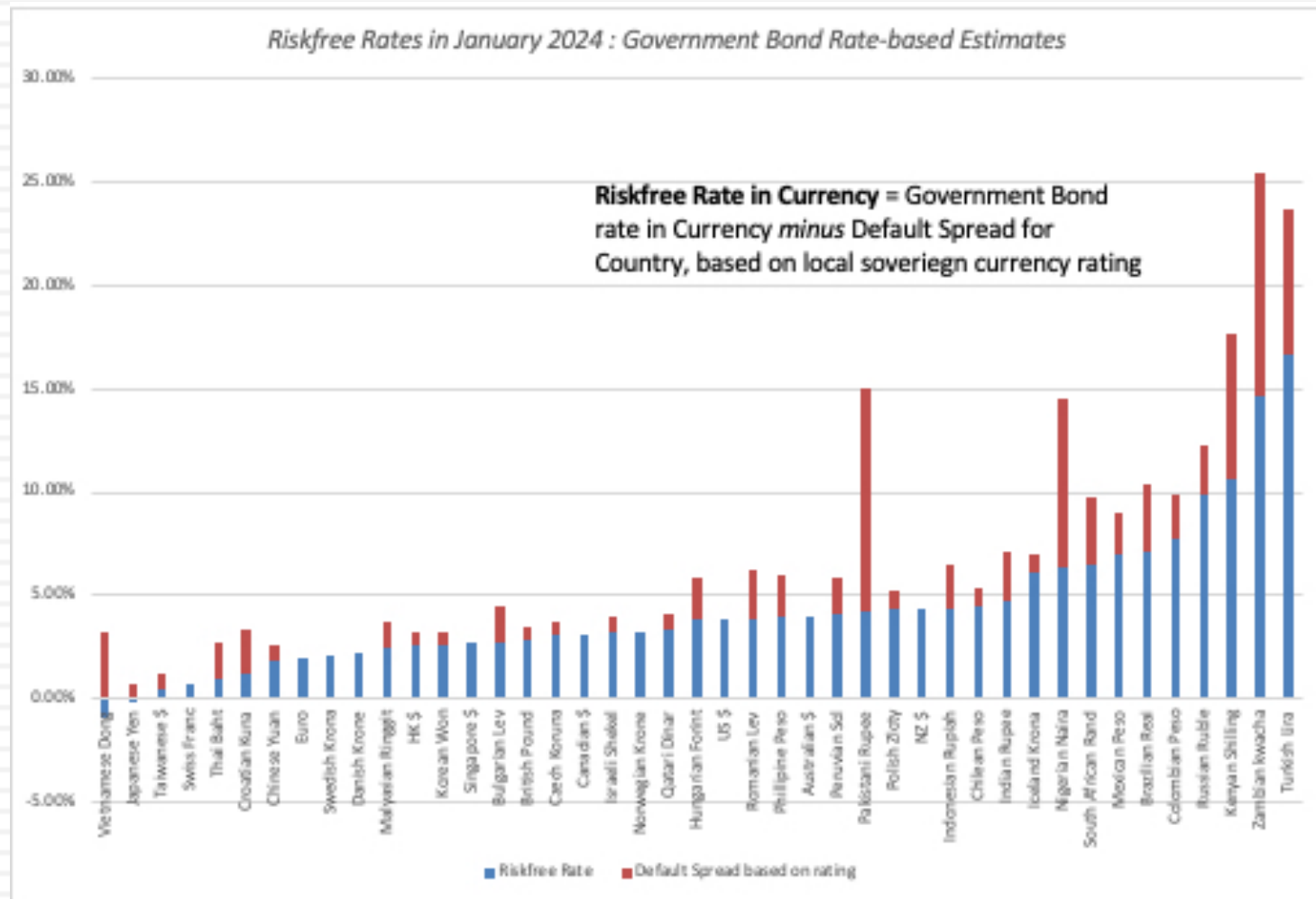
Yield Curves in 2022 and 2023...



Government Bond Rates, in other currencies..

	Ten-year Government Bond Rate						Ten-year Government Bond Rate				
	12/31/21	12/31/22	12/31/23	Change in 2022	Change in 2023		12/31/21	12/31/22	12/31/23	Change in 2022	Change in 2023
Australian \$	1.67%	4.02%	3.96%	2.35%	-0.06%	Mexican Peso	7.56%	9.02%	9.07%	1.46%	0.05%
Brazilian Reai	10.31%	12.76%	10.35%	2.45%	-2.41%	Nigerian Naira	12.61%	13.82%	14.58%	1.22%	0.76%
British Pound	0.97%	3.67%	3.53%	2.70%	-0.14%	Norwegian Krone	1.72%	3.11%	3.28%	1.39%	0.17%
Bulgarian Lev	0.70%	6.00%	4.50%	5.30%	-1.50%	NZ \$	2.33%	4.55%	4.39%	2.22%	-0.16%
Canadian \$	1.43%	3.29%	3.09%	1.86%	-0.20%	Pakistani Rupee	11.54%	13.80%	15.08%	2.26%	1.28%
Chilean Peso	5.72%	5.34%	5.35%	-0.38%	0.01%	Peruvian Sol	5.87%	5.87%	5.87%	0.00%	0.00%
Chinese Yuan	2.85%	2.88%	2.58%	0.03%	-0.30%	Phillipine Peso	4.90%	6.91%	6.02%	2.01%	-0.89%
Colombian Peso	8.14%	13.20%	9.88%	5.07%	-3.32%	Polish Zloty	3.66%	6.79%	5.25%	3.14%	-1.54%
Croatian Kuna	0.63%	4.01%	3.31%	3.38%	-0.70%	Qatari Dinar	2.11%	4.24%	4.07%	2.13%	-0.17%
Czech Koruna	2.98%	5.14%	3.72%	2.16%	-1.42%	Romanian Lev	5.21%	8.35%	6.30%	3.14%	-2.05%
Danish Krone	0.10%	2.67%	2.22%	2.57%	-0.45%	Russian Ruble	8.42%	10.36%	12.30%	1.94%	1.94%
Euro	-0.18%	2.45%	2.03%	2.63%	-0.43%	Singapore \$	1.67%	3.09%	2.70%	1.42%	-0.39%
HK \$	1.45%	3.71%	3.27%	2.27%	-0.44%	South African Rand	9.35%	10.19%	9.77%	0.84%	-0.43%
Hungarian Forint	4.58%	9.23%	5.89%	4.65%	-3.34%	Swedish Krona	0.21%	2.37%	2.07%	2.16%	-0.30%
Iceland Krona	4.15%	6.49%	6.98%	2.34%	0.49%	Swiss Franc	-0.14%	1.62%	0.70%	1.76%	-0.92%
Indian Rupee	6.45%	7.34%	7.18%	0.89%	-0.17%	Taiwanese \$	0.69%	1.39%	1.17%	0.70%	-0.22%
Indonesian Rupiah	1.02%	3.61%	6.49%	2.59%	2.88%	Thai Baht	1.95%	2.52%	2.74%	0.57%	0.22%
Israeli Shekel	1.02%	3.61%	3.96%	2.59%	0.35%	Turkish Lira	23.33%	8.41%	23.69%	-14.92%	15.28%
Japanese Yen	0.07%	0.42%	0.62%	0.35%	0.20%	US \$	1.51%	3.88%	3.88%	2.37%	0.00%
Kenyan Shilling	12.55%	13.90%	17.72%	1.35%	3.82%	Vietnamese Dong	2.12%	5.04%	2.39%	2.92%	-2.65%
Korean Won	2.26%	3.81%	3.18%	1.56%	-0.63%	Zambian kwacha	31.50%	30.52%	25.50%	-0.98%	-5.03%
Malysian Ringgit	3.59%	4.02%	3.73%	0.43%	-0.29%						
						Median				2.13%	-0.22%

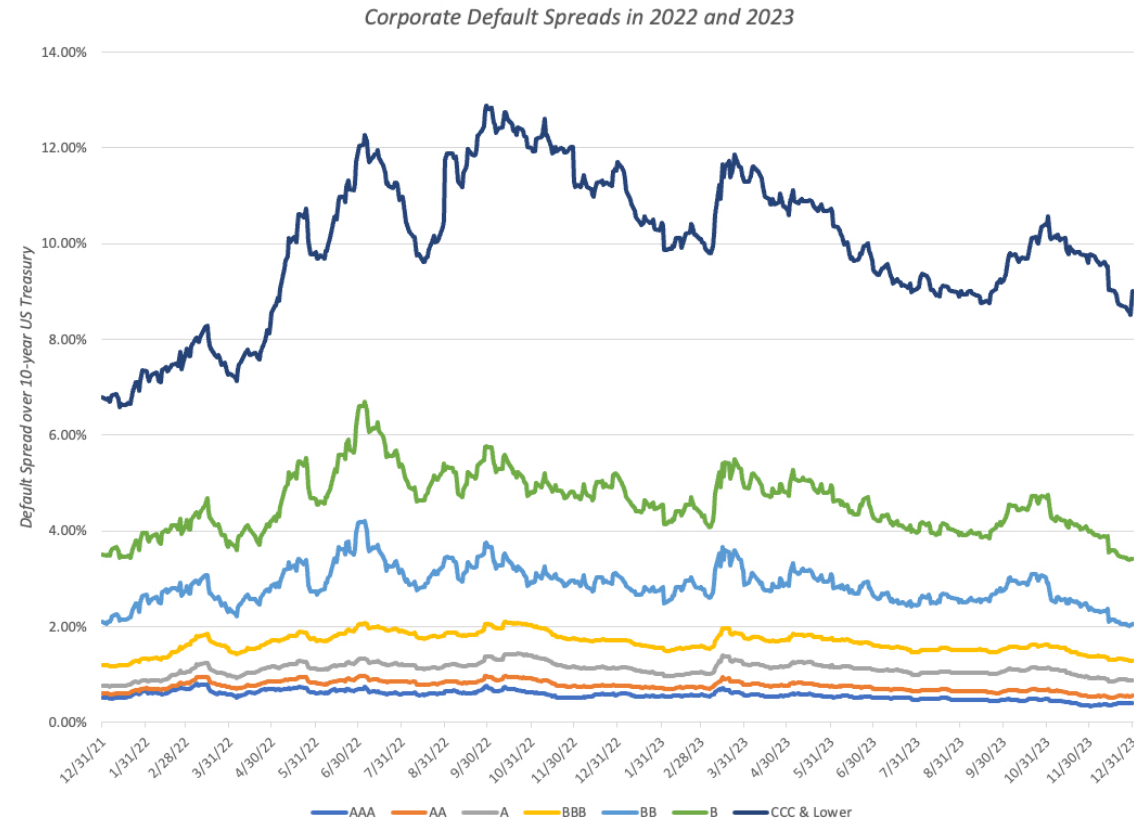
And Riskfree Rates...



Corporate Borrowing: The Cost of Borrowing

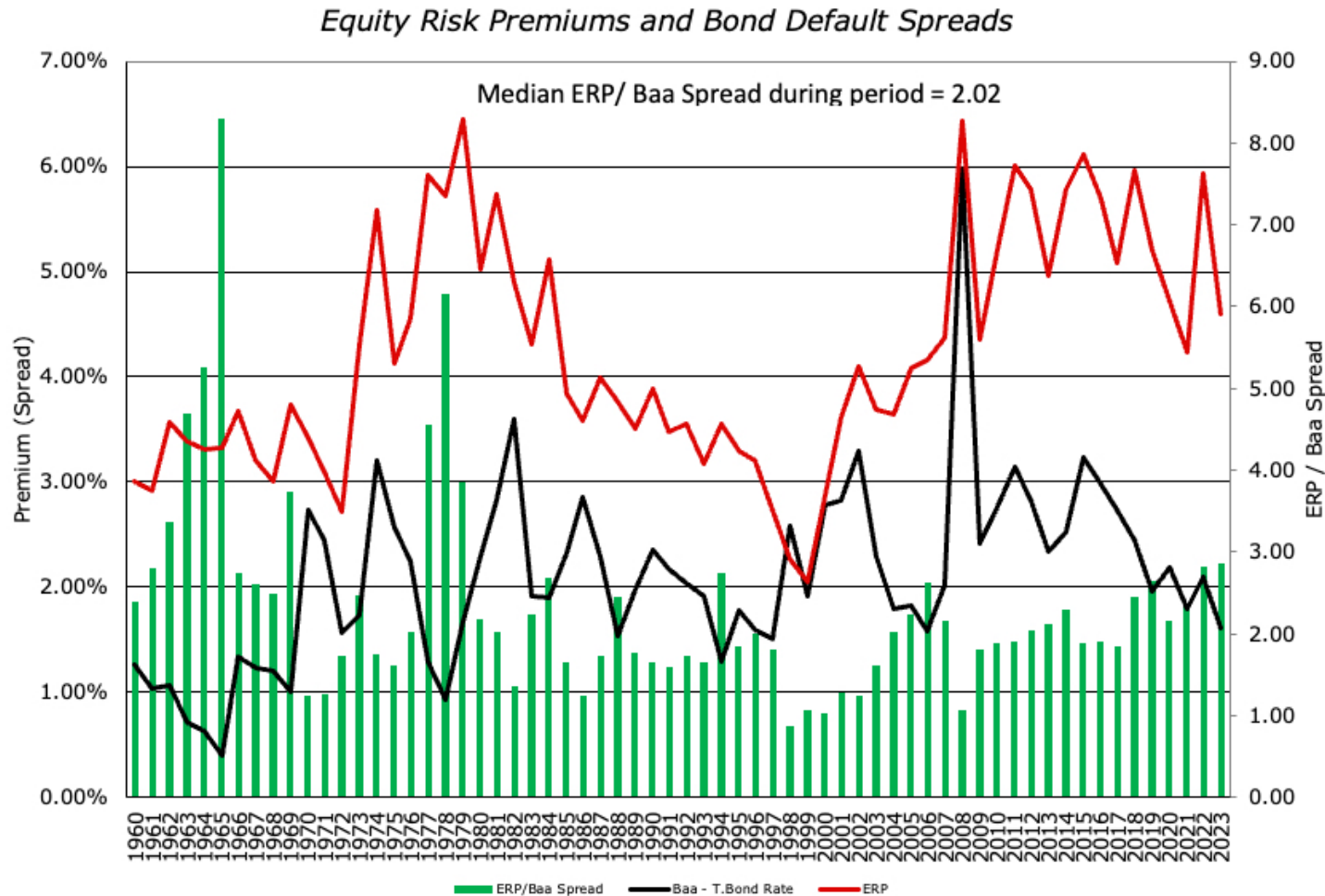
- As riskfree rates fluctuate, they affect the rates at which private businesses can borrow money. Since no company or business can print money to pay off its debt, there is always default risk, when you lend to a company, and to protect yourself as a lender, it behooves you to charge a default or credit spread to cover that risk:
 - ▣ Cost of borrowing for a company = Risk free Rate + Default Spread
- The question, when faced with estimating the cost of debt or borrowing for a company, is working out what that spread should be for the company in question.
- Many US companies have their default risk assessed by ratings agencies (Moody's, S&P, Fitch), and this practice is spreading to other markets as well. The bond rating for a company then becomes a proxy for its default risk, and the default spread then becomes the typical spread that investors are charging for bonds with that rating.

Default Spreads in 2022 and 2023...



	AAA	AA	A	BBB	BB	B	CCC & Lower
12/31/21	0.51%	0.62%	0.78%	1.21%	2.11%	3.51%	6.78%
12/31/22	0.58%	0.77%	1.14%	1.72%	3.08%	5.15%	11.70%
12/31/23	0.40%	0.56%	0.88%	1.29%	2.05%	3.41%	9.02%
Change in 2022	0.07%	0.15%	0.36%	0.51%	0.97%	1.64%	4.92%
Change in 2023	-0.18%	-0.21%	-0.26%	-0.43%	-1.03%	-1.74%	-2.68%

The Price of Risk: Bond and Equity Markets



The Bottom Line!

- If there are lessons that can be learned from interest rate movements in 2022 and 2023, it is that notwithstanding all of the happy talk of the Fed cutting rates in the year to come, it is inflation that will again determine how interest rates, especially at the longer maturities, move in 2024.
- If inflation continues its downward path, it is likely that we will see longer-term rates drift downwards, though it would have to be accompanied by significant weakening in the economy for rates to approach levels that we became used to, during the last decade.
- If inflation persists or rises, interest rates will rise, no matter what the Fed does.