

The Sizemore Income Letter

June 18, 2021

Thinking About *Thinking* About

By Charles Lewis Sizemore, CFA



The Fed didn't raise rates this past week. In fact, the Open Market Committee voted unanimously to keep rates pegged at zero.

The also left its bond buying program -- \$120 billion per month -- in place.

Yet the end is nigh. Fed Chairman Jerome Powell said that he and his colleagues were "talking about talking about" tightening policy. This was a wink and nod to his comments last year that the Fed wasn't even "thinking about thinking about raising rates." And that "talking about talking about" led them to move their forecast for rate hikes forward. In March, no rate hikes were expected until 2024 at the earliest. They now anticipate two rate hikes totaling about half a percent sometime in 2023, a full two years from now.

Well, that was enough to give the market the jitters. Stocks have been sliding all week, and the mood among traders is decidedly dour.

While it might seem silly that winks, nods and innuendos from the Fed can have this kind of an impact on the market, it shouldn't be surprising given the circumstances. The massive bull market of the past year has been driven by Fed stimulus. Powell and his colleagues stepped in when the capital markets collapsed last month and injected emergency liquidity. Well, that emergency liquidity is now multiple trillions of dollars that has sloshed across the stock, bond and even real estate markets, fueling asset bubbles.

So, when they threaten to take that liquidity away... even if they are just talking about *talking* about it... it sort of drains the life out of the room.

Our portfolio avoided taking major damage, though some of our more inflation-sensitive stocks got hit. We're now down about 3% in **Newmont Corporation (NYSE: NEM)** and close to 10% in **BHP Group (NYSE: BHP)**. When the Fed said it would move faster to squash rising inflation expectations, investors reacted by dumping gold and copper miners.

I'm not recommending we pull the ripcord just yet. The Fed's change in tone is a big deal, and I take it seriously. But we also need to take it in context. Real tightening is

still years away, and the Fed has made it pretty clear that it's comfortable with inflation running a little hot for a while.

And then there's the budget deficit. It's expected to be \$3.4 trillion this year.

That's not the budget, mind you. That's the budget *deficit*. That's the spending in excess of revenues. As a percentage of GDP, this will be the fourth-largest deficit in U.S. history, surpassed only by three years during World War II when we were fighting a battle for survival on two fronts. The Congressional Budget Office doesn't expect the deficit to be lower than \$1 trillion at any point the next decade.

Budget deficits alone don't cause inflation. If that were true, Japan would have the worst inflation in the world, yet Japan has suffered from persistent deflation for nearly 30 years.

I get that. But all the same, I think it makes sense to hold on to our inflation-sensitive plays a little longer. We still have a long runway before we hit our stop losses. If it looks like I'm flat-out wrong here and our commodity positions as a whole roll over, we'll want to make some significant changes. But it's far too early for that just yet.

Sizemore Income Letter Portfolio

Stock	Ticker	Entry Date	Buy Price	Recent Price	Stop Loss	Yield	Cumulative Dividends	Total Return	IRA Friendly?	Action
ClearBridge Energy Midstream Opportunity	EMO	5/26/2021	\$21.94	\$ 24.01	\$14.94	6.86%	\$ -	9.43%	Yes	Buy
First Trust Dynamic Europe Equity Income	FDEU	5/26/2021	\$13.68	\$ 13.75	\$11.50	5.26%	\$ -	0.51%	Yes	Buy
Newmont Corporation	NEM	4/27/2021	\$65.72	\$ 63.67	\$55.43	2.97%	\$ -	-3.12%	Yes	Buy
BHP Group	BHP	2/25/2021	\$78.04	\$ 70.50	\$61.50	4.27%	\$ -	-9.66%	Yes	Buy
Vale SA	VALE	2/25/2021	\$17.40	\$ 21.08	\$15.04	5.75%	\$ 0.77	25.56%	Yes	Buy
Magellan Midstream Partners	MMP	1/29/2021	\$44.41	\$ 50.68	\$38.96	8.27%	\$ 1.03	16.43%	No	Buy
WisdomTree Emerging Markets High Dividend Fund	DEM	12/31/2020	\$41.22	\$ 46.53	\$39.60	4.13%	\$ 0.18	13.31%	Yes	Buy
Healthcare Trust of America	HTA	11/20/2020	\$26.80	\$ 28.78	\$23.45	4.61%	\$ 0.32	8.58%	Yes	Buy
Physicians Realty Trust	DOC	11/20/2020	\$17.80	\$ 19.08	\$15.19	5.00%	\$ 0.23	8.48%	Yes	Buy
AllianceBernstein Holding, LP	AB	11/6/2020	\$30.85	\$ 44.65	\$33.04	6.95%	\$ 0.97	47.88%	No	Hold
Main Street Capital	MAIN	9/25/2020	\$29.74	\$ 41.61	\$32.96	5.96%	\$ 0.82	42.67%	Yes	Buy
Iron Mountain	IRM	8/25/2020	\$30.22	\$ 45.57	\$33.48	5.66%	\$ 1.24	54.89%	Yes	Hold
Starwood Property Trust	STWD	8/25/2020	\$15.70	\$ 25.72	\$17.56	7.66%	\$ 0.96	69.94%	Yes	Buy
Dow Inc.	DOW	6/24/2020	\$38.45	\$ 63.54	\$45.91	4.07%	\$ 0.70	67.07%	Yes	Buy
Tortoise Essential Assets Income Term Fund	TEAF	6/24/2020	\$10.73	\$ 14.87	\$11.94	6.18%	\$ 0.60	44.18%	Yes	Buy
LyondellBasell Industries	LYB	5/22/2020	\$60.39	\$ 102.42	\$78.49	3.76%	\$ 1.05	71.34%	Yes	Buy
Invesco Adv. Municipal Income Trust II	VKI	4/23/2020	\$10.12	\$ 12.12	\$11.32	4.78%	\$ 0.51	24.75%	No	Hold
Ares Capital Corporation	ARCC	4/23/2020	\$11.35	\$ 19.34	\$15.92	8.27%	\$ 1.20	80.97%	Yes	Buy

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That's all I have for today. Enjoy your weekend, and until next week, keep cashing those dividend checks!

A handwritten signature in blue ink that reads "Charles Lewis Sizemore". The signature is fluid and cursive, with a long horizontal stroke at the end.

Charles Lewis Sizemore, CFA

P.S.: Apart from writing this newsletter, I run a full-service wealth management firm along with my colleagues. At **Sizemore Capital Management**, we build income portfolios like those I write about in the *Sizemore Income Letter*. But we also do a lot more than that. We manage a suite of low-volatility strategies offering low correlation to the S&P 500. If you'd like for me to take a look at your portfolio and offer some recommendations, contact me at info@sizemorecapital.com.