The Sizemore Income Letter

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Did Powell Bring Christmas Early?

By Charles Lewis Sizemore, CFA

Fed Chairman Jerome Powell threw us a bone yesterday. He implied that his next rate hike would likely be 0.5% instead of the 0.75% we've seen for the past four.

In case you need your memory jogged, the Fed raised rates above zero with an inaugural 0.25% hike in March, which was followed by a 0.50% hike in May and then four consecutive 0.75% hikes.

Powell's comments sent the market into euphoria, with the S&P 500 ending the day 3% higher.

I think it's possible this could be the start of the "Santa Claus" rally. Stocks generally perform well in December, and after a dumpster fire of a year, it wouldn't be strange at all to see us finish the year strongly as investors who previously sold or chose to sit on the sidelines start reallocating to stocks ahead of a new year.

But… let's not get ahead of ourselves. Powell is still hawkish, and he made it abundantly clear that he sees the Fed funds rate going to at least 5%. That's a full 1% higher than today's target.

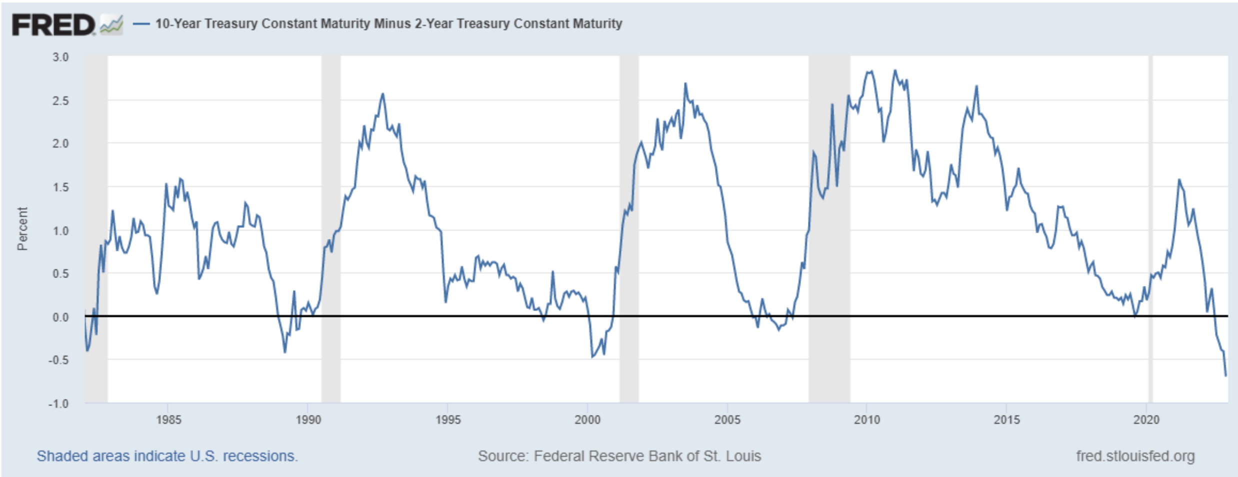
Importantly, Powell specifically mentioned the 1970s as a morality tale and said he did not want to risk softening his stance too early. Putting it bluntly, he said: "It will take substantially more evidence to give comfort that inflation is actually declining."

In a nutshell, Powell told us that he plans to keep relentlessly raising rates to fight inflation… but he's going to do it in smaller doses over a longer period of time.

So, we're still very much fighting the Fed. And we're doing it at a time when the yield curve is the most inverted it's been in over 40 years (see chart on following page).

Inverted yield curves do not "guarantee" a recession. But every yield curve inversion since World War II has been followed by one. And we're starting to see early evidence in a string of mostly disappointing earnings releases from retailers.

So, this is a long way of saying that, while there might be some bargains out there worth nibbling on, this is not a "back up the truck" moment in the stock market. My best guess is that we have another 6-12 months of choppiness in front of us before we see a real bull market.



We'll see.

In the meantime, we'll continuing to do what we're doing: Opportunistically grab new income opportunities as they come along which keeping a little more cash on hand than usual.

I've mentioned this before but it's worth mentioning again. I manage a suite of funds that invests in strategies that are largely outside of the stock market. The run the gamut in terms of risk. Some are extremely conservative, others are fairly aggressive. But what they all have is a low correlation to traditional stocks and bonds. So, if you're looking to diversify and put your eggs in vastly different baskets, let's talk.

And finally, before I sign off. I've really been beating the drum hard in recommending short-term US Treasuries. I want to keep beating that drum today.

As I write this, you can get a yield of 4.74% on a 1-year Treasury. That's a guaranteed, risk-free return if you hold to maturity. And if, for some reason, you have to sell before maturity, your risk of significant loss between now and twelve months is infinitesimally small.

So, I repeat: If you have cash piling up and you're not comfortable investing it… buy Treasuries. You can do it at any major brokerage house or at the US Treasury website itself (www.treasurydirect.gov).

If you have only a modest amount of money to invest, the Series I Savings Bond at Treasury Direct is still the best deal in town. It yields 6.89% at the moment, with its return indexed to inflation. You're limited to $10,000 per person, but if you're married or comfortable investing in your children's names, you can stuff a decent bit into these.

That's all I have for now. Until next week, keep cashing those dividend checks!

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.

Sizemore Income Letter Portfolio

Stock	Ticker	Entry Date	Buy Price	Recent Price	Stop Loss	Yield	Cumulative Dividends	Total Return	IRA Friendly?	Action
Atlantica Sustainable Infrastructure	AY	11/22/2022	$27.75	$28.08	$20.41	6.27%	$ -	1.19%	Yes	Buy
AGNC Investment Corporation	AGNC	11/3/2022	$8.16	$10.24	$6.37	14.07%	$ -	25.43%	Yes	Buy
Cheniere Energy Partners	CQP	8/4/2022	$46.49	$60.94	$33.01	5.73%	$ 1.07	33.37%	No	Buy
Citigroup Inc	C	6/23/2022	$47.34	$48.10	$32.57	4.24%	$ 1.02	3.76%	Yes	Buy
ONEOK, Inc.	OKE	4/28/222	$65.50	$67.85	$47.91	5.51%	$ 2.81	7.86%	Yes	Buy
Energy Transfer Partners	ET	12/27/2021	$8.16	$12.58	$7.79	7.32%	$ 0.87	64.77%	No	Buy
EPR Properties	EPR	11/29/2021	$47.78	$42.10	$33.92	7.84%	$ 3.20	-5.20%	Yes	Buy
Chevron Corporation	CVX	9/30/2021	$103.33	$182.52	$130.77	3.11%	$ 7.02	83.43%	Yes	Buy
ClearBridge Energy Midstream Opportunity	EMO	5/26/2021	$21.94	$30.70	$20.49	6.65%	$ 2.68	52.14%	Yes	Buy
Magellan Midstream Partners	MMP	1/29/2021	$44.41	$53.07	$41.78	7.82%	$ 8.28	38.15%	No	Buy
Iron Mountain	IRM	8/25/2020	$30.22	$55.32	$42.57	4.46%	$ 5.57	101.49%	Yes	Hold
Starwood Property Trust	STWD	8/25/2020	$15.70	$21.69	$18.15	8.85%	$ 4.32	65.67%	Yes	Buy
Ecofin Sustainable and Social Impact Term Fund	TEAF	6/24/2020	$10.73	$13.91	$12.53	7.76%	$ 2.24	50.47%	Yes	Buy