

# The Sizemore Income Letter

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## Let's Talk About Powell

By Charles Lewis Sizemore, CFA



Fed Chairman Jerome Powell really got the market's blood pumping yesterday by all but confirming that he's done raising interest rates... and not so subtly implying that rates could be nearly a full percentage point lower by this time next year.

Is the news really that great? Or is the market doing what it has done all year and is just seeing what it wants to see?

I'll get to that.

First, I want to revisit our small positions in preferred stock that I initiated earlier this year. Back in March, no one wanted preferred stock. With bond yields soaring higher, there just wasn't any demand for a "perpetual bond" with massive interest rate sensitivity.

But that was our opportunity. The preferreds traded at massive discounts to their par value and sported really attractive yields, even in a high-inflation, high-interest-rate environment. And as we approach the nine month mark, these investments aren't looking so shabby. All are positive and one is up as much as 15%.

And here's the best part. They're still cheap. All still trade at deep discounts to par value and pay dividend yields in excess of 7%.

Over the long-term, I prefer to own a portfolio of dividend *growing* common stocks. But I'm not going to say no to a high-yield bond substitute trading at a deep discount. These opportunities don't come along often, but when they do we should pounce on them.

Stock	Ticker	Buy Date	Buy Price	Current Price	Discount to Par	Yield	Cumulative Dividends	Total Return
AGNC Investment Corp Preferred	AGNCP	3/31/2023	\$19.72	\$21.89	-12%	7.00%	\$ 0.77	14.89%
Goldman Sachs Series A Preferred	GS.PRA	3/31/2023	\$20.42	\$21.75	-13%	7.49%	\$ 0.41	8.51%
Bank of America Corp Floating Rate Non-Cumulative Preferred Stock, Series 5	BML.PRL	3/31/2023	\$20.24	\$21.33	-15%	7.36%	\$ 1.10	10.83%
Morgan Stanley   Floating Rate Non-Cumulative Preferred Stock, Series A	MS.PRA	3/31/2023	\$20.28	\$21.72	-13%	7.01%	\$ 0.77	10.91%

Let's get back to the Fed.

In case you missed it, the Federal Reserve held its press conference yesterday and opted to get its targeted interest rate range unchanged at 5.25% to 5.5%. That was widely expected.

But what *wasn't* expected was Fed Chair Jerome Powell's swing into decidedly dovish territory. For the first time, he said that the Fed's targeted rate was "likely at or near its peak for this tightening cycle."

In other words, no more rate hikes. He's done.

But that's not what jolted the market higher. The market has been assuming he was done for months. No, it was this little tidbit:

*FOMC participants wrote down their individual assessments of an appropriate path for the federal funds rate based on what each participant judges to be the most likely scenario going forward... If the economy evolves as projected, the median participant projects that **the appropriate level of the federal funds rate will be 4.6 percent at the end of 2024**, 3.6 percent at the end of 2025, and 2.9 percent at the end of 2026, still above the median longer-term rate.*

The Federal Reserve is expecting interest rates to be nearly a full percentage point lower by this time next year.

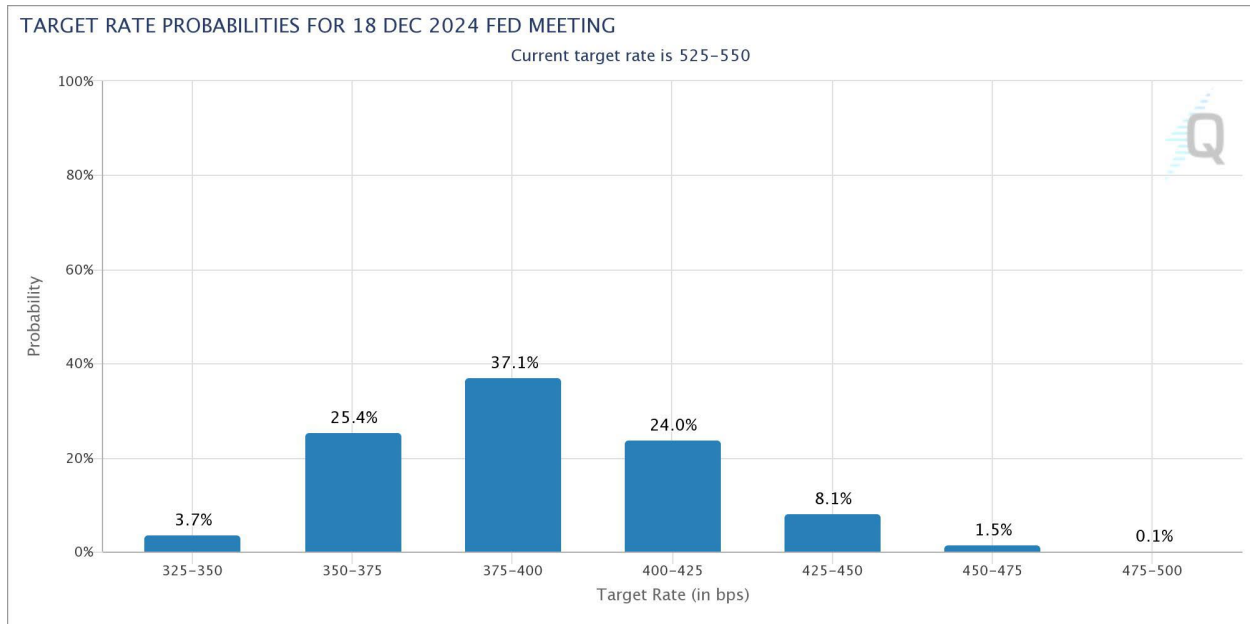
I'm not so sure about that. Inflation at this stage is driven by services, which are labor dependent, rather than manufactured goods. This is a demographic problem, not a monetary problem. Not even the omnipotent Fed Chair snap his fingers and make new fully-trained workers materialize out of the ether.

But, let's say I'm being too pessimistic and, due to a productivity miracle, inflation in services falls enough to make the Fed's rate cuts possible. (As Warren Buffett says, it's generally a mistake to bet against America!)

Wall Street is still likely to be disappointed. The futures market is pricing in only a 1.5% probability that rates are sitting anywhere near 4.6% by this time next year, as you can see in the chart on the next page.

In fact, its pricing in a 37% probability that the Fed cuts rates by 1.5% to 1.75% and a 30% probability they cut them significantly lower than that.

Let me clear: Jerome Powell is not good at his job. We're in the inflationary mess we're in today largely because he pumped an extra \$5 trillion into the economy and believed that inflation was "transitory."



But for all his faults, he's anything if not transparent. Powell tells you exactly what he plans to do.

So, how exactly does this play out? When the Fed *doesn't* lower rates as much as the market is pricing in... what then? Do stock prices give back their Fed-inspired gains?

We'll find out soon enough.

Regardless, my view remains unchanged. I'm not dumping my dividend plays any time soon. We need solid dividend payers to both pay our bills today and to stay a step ahead of inflation.

But I'm also recommending a healthy allocation to T-bills, gold and to alternative investments with low correlation to the stock market. (We can chat about those, by the way. Please reach out at any time.)

I'll have more to say on this next week, until then, 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](mailto:info@sizemorecapital.com).

## The Sizemore Income Letter Portfolio

Stock	Ticker	Entry Date	Buy Price	Recent Price	Stop Loss	Yield	Cumulative Dividends	Total Return	IRA Friendly?	Action
Essential Properties Realty Trust	EPRT	8/4/2023	\$23.59	\$25.50	\$18.10	4.61%	\$ 0.28	9.28%	Yes	Buy
National Storage Affiliates Trust	NSA	6/30/2023	\$34.82	\$38.19	\$26.98	5.87%	\$ 0.56	11.29%	Yes	Buy
Nintendo Company Ltd	NTDOY	5/26/2023	\$10.69	\$12.02	\$8.34	3.49%	\$ -	12.44%	Yes	Buy
iShares MSCI Brazil ETF	EWZ	12/26/2022	\$28.79	\$34.64	\$20.15	10.13%	\$ 0.76	22.95%	Yes	Buy
Cheniere Energy Partners	CQP	8/4/2022	\$46.49	\$53.35	\$41.42	6.54%	\$ 5.23	26.01%	No	Buy
Citigroup Inc	C	6/23/2022	\$47.34	\$49.34	\$36.00	4.13%	\$ 3.10	10.77%	Yes	Buy
ONEOK, Inc.	OKE	4/28/2022	\$65.50	\$67.31	\$47.91	5.68%	\$ 6.63	12.88%	Yes	Buy
Energy Transfer Partners	ET	12/27/2021	\$8.16	\$13.53	\$8.59	9.16%	\$ 2.11	91.62%	No	Buy
EPR Properties	EPR	11/29/2021	\$47.78	\$47.84	\$33.92	6.90%	\$ 6.78	14.31%	Yes	Buy
Chevron Corporation	CVX	9/30/2021	\$103.33	\$144.67	\$132.62	4.18%	\$ 13.06	52.65%	Yes	Buy
ClearBridge Energy Midstream Opportunity	EMO	5/26/2021	\$21.94	\$33.11	\$20.49	7.85%	\$ 5.05	73.93%	Yes	Buy

## The Forever Portfolio

Stock	Ticker	Entry Date	Buy Price	Recent Price	Stop Loss	Yield	Cumulative Dividends	Total Return	IRA Friendly?
Walmart	WMT	11/15/2023	\$ 168.88	\$ 154.05	None	1.48%	\$ 0.57	-8.44%	Yes
Waste Management	WM	11/15/2023	\$ 172.02	\$ 179.06	None	1.56%	\$ 0.70	4.50%	Yes
National Retail Properties	NNN	9/29/2022	\$ 39.07	\$ 41.60	None	5.29%	\$ 2.78	13.59%	Yes
Conagra Brands	CAG	6/23/2022	\$ 32.47	\$ 30.44	None	4.34%	\$ 2.02	-0.03%	Yes
The Clorox Company	CLX	6/23/2022	\$ 132.28	\$ 145.63	None	3.24%	\$ 7.12	15.47%	Yes
Campbell Soup Company	CPB	6/23/2022	\$ 47.04	\$ 45.34	None	3.26%	\$ 2.22	1.12%	Yes
Flowers Foods	FLO	6/23/2022	\$ 24.97	\$ 22.59	None	3.90%	\$ 1.35	-4.11%	Yes
General Mills	GIS	6/23/2022	\$ 67.90	\$ 67.83	None	3.18%	\$ 3.34	4.82%	Yes
J.M. Smucker Company	SJM	6/23/2022	\$ 123.83	\$ 126.74	None	3.22%	\$ 6.20	7.36%	Yes
Target Corporation	TGT	6/23/2022	\$ 141.08	\$ 138.40	None	3.12%	\$ 6.52	2.72%	Yes
Coca-Cola Company	KO	4/27/2022	\$ 65.56	\$ 59.93	None	2.94%	\$ 3.60	-3.10%	Yes
Prologis	PLD	10/29/2021	\$ 146.67	\$ 129.25	None	2.44%	\$ 6.40	-7.51%	Yes
Crown Castle International	CCI	10/29/2021	\$ 181.90	\$ 116.76	None	5.04%	\$ 12.14	-29.14%	Yes
Philip Morris International	PM	3/30/2021	\$ 89.35	\$ 94.39	None	5.38%	\$ 11.33	18.32%	Yes
Altria Group	MO	3/19/2020	\$ 37.10	\$ 42.02	None	8.95%	\$ 13.46	49.54%	Yes
Realty Income	O	3/19/2020	\$ 48.08	\$ 56.61	None	5.42%	\$ 10.96	40.53%	Yes
AT&T	T	3/19/2020	\$ 23.69	\$ 16.45	None	6.75%	\$ 6.63	-2.59%	Yes
Enterprise Products Partners	EPD	3/19/2020	\$ 14.52	\$ 26.20	None	7.63%	\$ 7.00	128.62%	No
Kinder Morgan	KMI	3/19/2020	\$ 11.20	\$ 17.47	None	6.47%	\$ 4.09	92.53%	Yes
Ventas	VTR	3/19/2020	\$ 19.98	\$ 48.40	None	3.72%	\$ 7.09	177.74%	Yes
Public Storage	PSA	3/19/2020	\$ 187.60	\$ 282.55	None	2.83%	\$ 47.15	75.75%	Yes
International Paper	IP	3/19/2020	\$ 30.13	\$ 36.91	None	5.01%	\$ 7.08	46.01%	Yes
STAG Industrial	STAG	3/19/2020	\$ 21.71	\$ 38.28	None	3.81%	\$ 5.46	101.49%	Yes
Retail Opportunity Investments	ROIC	3/19/2020	\$ 7.25	\$ 14.15	None	4.24%	\$ 1.72	118.90%	Yes

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