



THE POSITIVE SIDE OF HIGHER INTEREST RATES

Over the past 18 months or so, much has been written about the Federal Reserve interest rate increases that have been implemented to control inflation. Most of the print and television coverage of these rate increases has focused on the possible negative ramifications of this policy. Indeed, the impact of the total increase of 525 basis points (5.25%) in short-term interest rates on the economy is not yet fully known. While these rate increases contributed to the decline in the stock market last year, the equity market has started to look forward to a more stable interest rate environment, and as a result, it has enjoyed a strong year so far in 2023.

An often-overlooked asset class is fixed income, or bonds. Prior to the beginning of the Federal Reserve campaign of interest rate increases, a 1-year U.S. Treasury bond yielded 1.19%,¹ the 10-year U.S. Treasury bond yield was 2.17%, and an investor in 10-year Minnesota tax-free bonds was lucky to find a high-quality bond yielding much over 1%, while money market funds and bank savings accounts were yielding less than 0.1%.

Fast forward to today, December 2023, and bond investors can invest in a 1-year U.S. Treasury bond at a yield of about 5.4%,² a 10-year U.S. Treasury bond at a yield of about 4.5%, or a high quality 10-year Minnesota tax-free bond that yields around 3.3% (approximately 5.5% tax equivalent yield at the top tax bracket). Most bank savings accounts are well below current market rates, and money market funds are just starting to provide yields closer to bond market interest rates.

In addition, bank and money market rates are subject to change without notice, whereas our strategy of owning individual bonds with defined maturities locks in the investors' yield for the life of the bond.

As a result of this shift in the market, we have begun to engage more of our clients in a conversation about the upsides of either adding bonds or increasing the allocation of bonds to their portfolios. Though many of these clients had little or no interest in bonds when returns were 1–2%, bond returns are now looking much more attractive. However, it has not changed that bonds provide stability to a portfolio.

Consequently, this significant change in the expected returns for bonds in such a short period of time is exactly why we believe in regularly reviewing the Investment Policy Statement (IPS) with each of our clients on a regular basis. The IPS is the document that details the asset allocation between stocks and bonds for each client account. At Compass, we view the IPS as a document that can be changed at any time based upon changes in the individual client's needs, risk tolerance, or market opportunities. The shift in interest rates has also provided many of our clients with the opportunity to reduce the equity risk in their portfolios without giving up as much return potential as would have been necessary 2 years ago.

We would love the opportunity to talk with you about these opportunities and how they may benefit your unique circumstances.

¹ Bloomberg, as of 11/28/2023

² Bloomberg, as of 11/28/2023



FIRM

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AUM

\$1.8 billion

INCEPTION

1988

COMPASS PHILOSOPHY

As an independently-owned firm, Compass provides customized investment services to individuals, foundations/endowments, trusts, and retirement plans. Our objective is to preserve and enhance the real purchasing power of our clients' wealth over time.

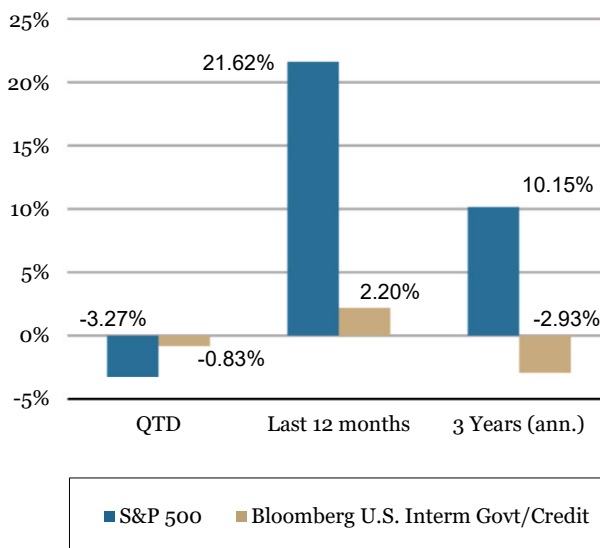
Our clients value working directly with a seasoned and experienced team of portfolio managers to help them navigate their investments relating to:

- Building a quality portfolio
- Divorce
- Retirement
- Inheritance
- Sale of a business
- Trust distribution

Our experienced team is always available to provide financial advice and review your financial assets.

MARKET INDICES

Total Return as of 9/30/2023



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For more information regarding our company or results, please contact us at investors@compasscap.com.