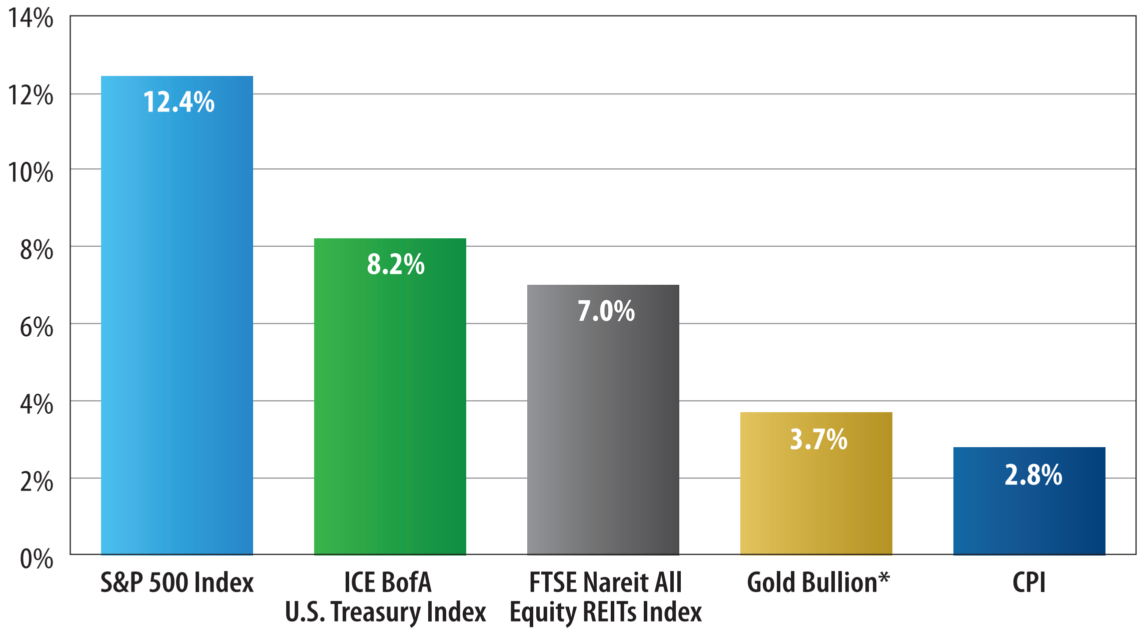
September 30, 1981

Average Annualized Total Returns & Consumer Price Index (CPI) *(9/30/81-8/31/21)*



Source: Bloomberg. *Gold bullion reflects an average price return. CPI calculation thru 7/31/21. **Past performance is no guarantee of future results.**

View from the Observation Deck

1. The yield on the benchmark 10-year Treasury note (T-note) closed trading on 9/30/81 at an all-time high of 15.84%, according to data from Bloomberg.
2. Fast-forward some 40 years and we find the yield down to 1.31% as of the close on 8/31/21. From 9/30/81 through 8/31/21, the yield on the 10-year T-note declined by 14.53 percentage points.
3. Today, we would like to take investors back to a simpler time when asset allocation focused on just four major asset classes: stocks, government bonds, real estate and gold. These four basic asset classes were somewhat analogous to the four basic food groups approach to a proper diet: fruits and vegetables, meat, dairy and grains.
4. As indicated in the chart above, stocks outperformed the other three major asset classes, as one might expect after factoring in the risk-return spectrum, and all four comfortably outpaced inflation, as measured by the Consumer Price Index (CPI).
5. The investment landscape has obviously changed dramatically. The 1.31% yield on the 10-year T-note on 8/31/21 stood well below the 5.4% trailing 12-month CPI rate on 7/31/21 (most recent release).
6. Due to what hopefully will turn out to be a strong and sustainable U.S. economic recovery (Federal Reserve has yet to eliminate or even cut back its stimulus efforts and the COVID-19 pandemic is still plaguing the globe), investors are facing down the proposition of rising bond yields moving forward, particularly in the Treasury market. Sound familiar?
7. Federal Reserve Chairman Jerome Powell stated at the recent the Jackson Hole symposium that the central bank could begin reducing its monthly bond purchases by the end of this year, but indicated it will not be in a rush to raise interest rates.
8. The potential silver lining in today's climate is that investors have a plethora of new strategies and products designed to better cope with a rising interest rate climate. Over the past 40 years, the financial services industry has evolved well beyond the original four major asset classes.