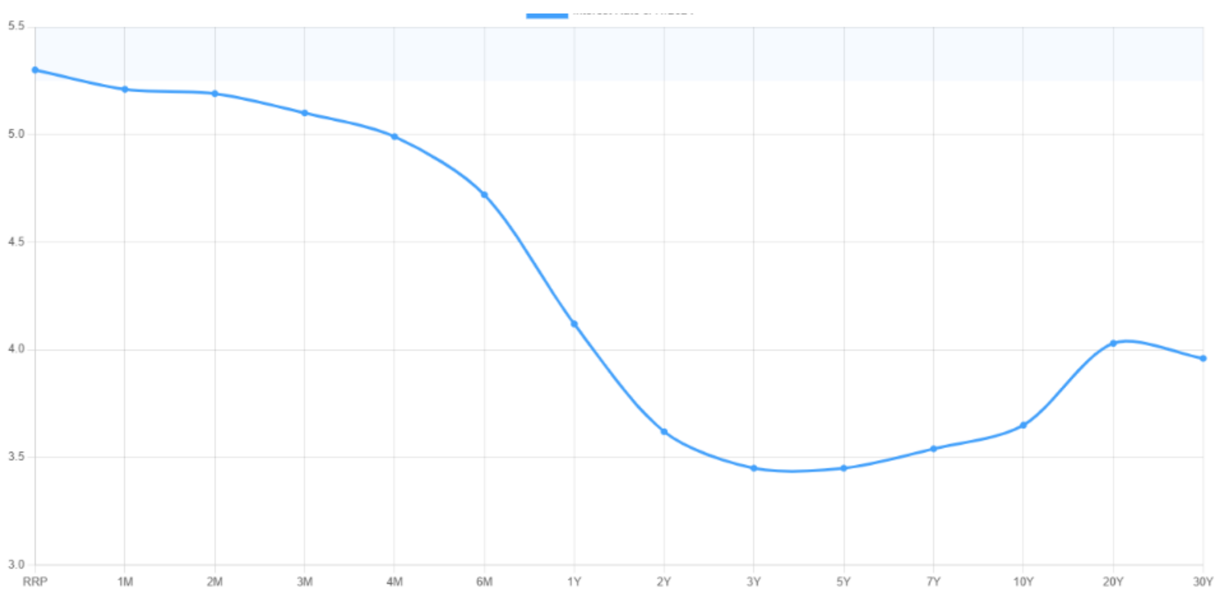
JSB Capital Management, LLC

Pro-active Wealth Management

September 27, 2024

Recently we've been asked by some clients about a transaction we did last Monday, September 16th when we sold some U.S. Treasury Bills ("T-Bills") that were about to mature. Included in that transaction were some Treasury Bills that had matured the day before, and some that were very close to maturity. It has been our practice over the last 18 months or so to "roll over" or use the proceeds from any Treasury Bill (or Note, for that matter) that was maturing to purchase another, similar Treasury Bill with the longest maturity possible consistent with locking in annual returns in excess of 5%.

As you may recall from previous newsletters, we stated that we were in a rare period-of-time when the very short-term rate of U.S. Treasury debt was yielding well above 5% annualized and that we would take advantage of that for as long as possible. For example, look at the "Yield Curve" or graphical representation of the Treasury debt market as of two weeks ago:



Notice that the return (yield - the left axis of the graph) for 6-month and less maturities (the leftmost portion of the graph) shows an attractive 5%-plus return while the longer-dated maturities are only around 3.5%. This has been the case for nearly **two years** since The Fed began its rate hike cycle. As we stated many times before, this is called an "inverted yield curve" and it is very unusual.

We also recognized that this situation was both rare and fleeting, so we continued to take advantage of the "risk-free" rates of return above 5% for as long as possible. (Refer back to numerous Newsletters from us over the last two years).

Returning to the reason for this email, we have reached the point where short-term rates are beginning to "normalize" or return gradually to rates in the low single digits and eventually will fall below the rates offered by the longer-term maturities. This process began with the announcement by The Federal Reserve Open Market Committee (FOMC) on the 18th of this month that they would cut their short-term rate (Fed Funds rate) by ½ a percentage point, and would likely continue to cut several more times, at least. This process will cause the T-Bill rates to decline in tandem with each FOMC rate cut.

We predicted the ½ point cut before the FOMC announcement and acted pre-emptively to lock in the more attractive rates for T-Bills at that time (on Monday, the 16th) before the rate cut announcement two days later. We used as much of the maturing and about-to-mature T-Bills in as many accounts as possible to lock in this attractive rate that will not again be available for many years to come, if history is any guide (and it's a very good guide). To see this in graphical format, we constructed a theoretical U.S. Treasury Bill investment known as a "ladder" or a portfolio of equal amounts of investment ($100,000 in this example) with 25% of the total investment in 3-month, 6-month, 9-month and 12-month T-Bill investments (hence, the "ladder"). See below:

$100000 1 Year, 4 Rung Treasury Ladder			9/16/2024							
Principal Cost	$98,044	Accrued I	$188.52	Total Par Value	$100,000					
Average Coupon %	0.71%	Average M	0.6 Years	Average Price	98.04					
CUSIP	Description	Quantity	Type	Est. Annual Inc	Estimated C	Coupon	Coupon Fr	Maturity	Price	APY/YTM
912797LF2	US Treasury	25	Treasury	$0.00	$24,746.94	0	At Maturit	12/5/2024	98.98777	4.847
912797MM6	US Treasury	25	Treasury	$0.00	$24,479.68	0	At Maturity	3/6/2025	97.91871	4.618
91282CEU1	US Treasury	25	Treasury	$718.75	$24,757.81	2.875	Semi-ann	6/15/2025	99.03125	4.327
912797MH7	US Treasury	25	Treasury	$0.00	$24,059.67	0	At Maturity	9/4/2025	96.23867	4.095
									AVE:	4.47
$100000 1 Year, 4 Rung Treasury Ladder			9/19/24							
Principal Cost	99087	Accrued I	411.99	Total Par Value	100000					
Average Coupon %	0.0228	Average M	0.6 Years	Average Price	99.09					
CUSIP	Description	Quantity	Type	Est. Annual Inc	Estimated C	Coupon	Coupon Fr	Maturity	Price	APY/YTM
9128283P3	US Treasury	25	Treasury	281.25	24854.5	2.25	Semi-ann	45657	99.418	4.335
912828ZF0	US Treasury	25	Treasury	125	24525.5	0.5	Semi-ann	45747	98.102	4.255
91282CEU1	US Treasury	25	Treasury	718.75	24792	2.875	Semi-ann	45823	99.168	4.048
91282CFK2	US Treasury	25	Treasury	875	24915.25	3.5	Semi-ann	45915	99.661	3.857
									AVE.	4.12

This is a "real market" illustration of what was available before the FOMC rate cut (note the average return of around 4.5% for a one-year laddered portfolio) compared to just after the rate cut where that same portfolio construction only yielded 4.1%. From now on, that is what the market will give us in terms of short-term T-Bill investments, which will continue to decline in yields available for the foreseeable future.

While we've maximized this rare opportunity for around the last two years, the succeeding T-Bill market will continue to decline in yields (as the Fed cuts rates) and will not provide us with this same very attractive, risk-free return. However, we will continue to seek out the best possible risk to return opportunities available and will roll over the T-Bills in the future into the best opportunities available.

Thank you for your trust and confidence in us. We will continue to pursue the most prudent course of action for your portfolios.

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