Stirling Bridge
Wealth Partners, LLC

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What goes up, must come down not only holds for apples and footballs tossed near the earth's surface, but oftentimes for highflying stocks. Even the best managed companies find that the laws of large numbers and the tenaciously competitive environment in which they operate eventually erode margins and success.

In the commodities space, especially those with such widespread uses such as oil, the converse is often true. What goes down, must come up. Since plummeting late last year and into the beginning of 2015, oil prices have rallied of late. In April alone, the price of West Texas Intermediate Crude climbed 25% to nearly $60 due to increasing demand and the relatively swift production cuts made by a new breed of U.S. producers. Many of those companies are using the higher prices to lock in hedging contracts into 2016 and even 2017. Some have indicated that if oil hits $70, oil rig deployment and production could increase – thereby setting the stage for at least a lid on oil prices in the near future.

The financial news in April was dominated by earnings reports. Primarily due to a surging dollar, but in the case of industrial, energy, and materials companies due to lower commodity prices, expectations for first quarter earnings were steadily lowered. However, the actual results beat those conservative expectations due to agile cost containment in most cases. As of this writing, over 80% have met or beaten expectations for profits. More than half have missed expectations for revenues, though, due to the factors cited earlier. These headwinds are already in the process of mitigating with the recent oil rally and the fact that the dollar has lost steam versus a broad basket of currencies.

Despite the incredulity of many in the press, the European Central Bank's version of Quantitative Easing currently underway seems to be bearing fruit. Deflation risks have eased. Economic growth is steady. Loan growth has improved. Japan is following a similar line and recently posted its first increase in inflation (a good thing for Japan at this point) in more than a year.

Greece remains a fiscal and economic basket case. Yet with every passing day we grow more confident that an imperfect, though workable, deal will emerge that allows time for reforms. The U.S. version of Greece, Puerto Rico, is going through a similar process, often grabbing headlines when some version of a deal or bill fails to garner support. We believe that it is in the interest of all parties in both cases to come to terms.

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Let's turn to interest rates. The Fed met the last week of April and as expected made no changes to policy. The drumbeat toward higher rates later in the year remains steady. We expect it to continue and once the lift-off commences, that it will be slow and patient.

We've answered similar questions from many clients of late. 'If interest rates climb, won't my bonds get clobbered,' is a rough paraphrase. The short and mathematically accurate answer is yes. But the real world is never so clean as to allow a simple one word response.

Clients own a portfolio of laddered bonds. Whether those bonds are held individually or wrapped inside a mutual fund, it is still a ladder of various maturities. Clients also rarely need all of their fixed income proceeds at any given time – If you are different and do have an exact date and liability, please let us know and we can better insulate your portfolio. Empirical data and many studies show that over a period of years a diversified portfolio of bonds actually does better than the average starting interest rate of the portfolio even when rates climb.

What this means is, due to the nature of bonds and their fixed payment and periodic maturities, rising rates have little impact beyond the first year or so. Investors should still own bonds in order to reduce overall volatility to a level that is appropriate for them.

Finally, we want to mention something that has been recently predicted in the press – a coming bear market for bonds. This conjures up all sorts of fears for investors and sells advertising for the news companies. The reality is less salacious. The worst long term bear market for bonds in the last 65 years or so was from 1954 to 1981 when rates went from 2% to 14%. An investor in a well-diversified, laddered bond portfolio had a positive return over that period – not much of a reason to fret, in our opinion.

Stirling Bridge Wealth Partners, LLC remains committed to providing customized investment solutions and robust financial planning wrapped in an exceptional service package for our high net worth clients throughout the country. We thank each of you for your dedication to us, for your trust, and for the referrals you've sent.

Sincerely

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