BAIRD
Private Wealth Management

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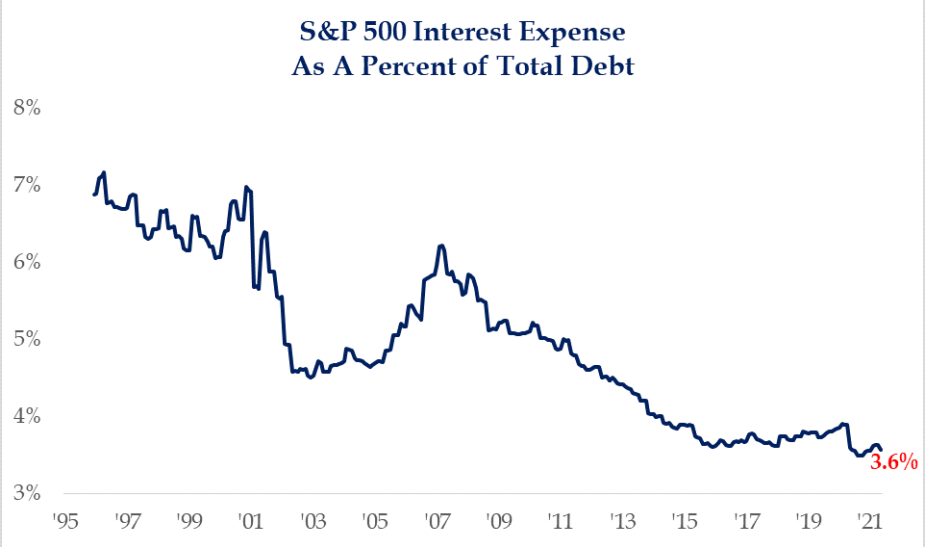
Prepared by Strategas Securities, a Baird Company

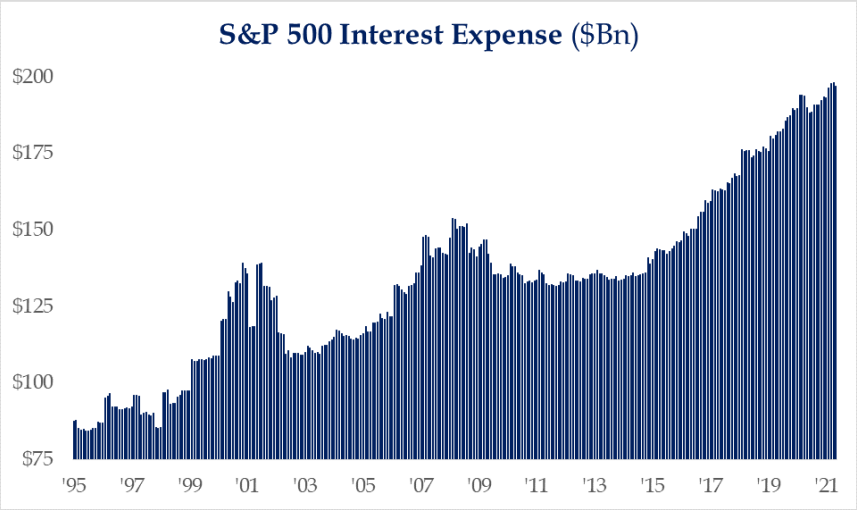
INTEREST EXPENSES AS A PERCENT OF DEBT NEAR 25 YEAR LOWS

In aggregate, interest expenses as a percentage of total debt for S&P 500 companies is near the lowest levels on record. While this makes sense given the declining interest rate environment and ZIRP policy from the Fed, any sustained rising rate environment may mean this trend will reverse itself and companies' approach toward their usage of debt may have to change.



ACTUAL AGGREGATE INTEREST PAYMENTS ALREADY NEAR ALL TIME HIGHS

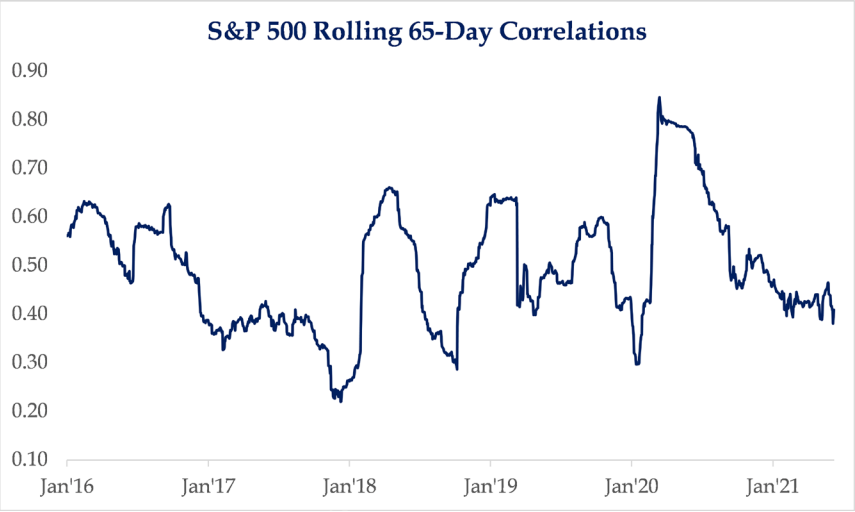
Despite interest rates have been in a secular downtrend, aggregate interest expense is near an all-time high, as companies have loaded up on debt. Any secular shift higher in rates means interest expense will continue to grow. A higher interest rate environment presents a challenge to corporations and while some may be able to handle it, it undoubtedly will not end well for others.



Please see the Appendix on page 3 for important disclosures.

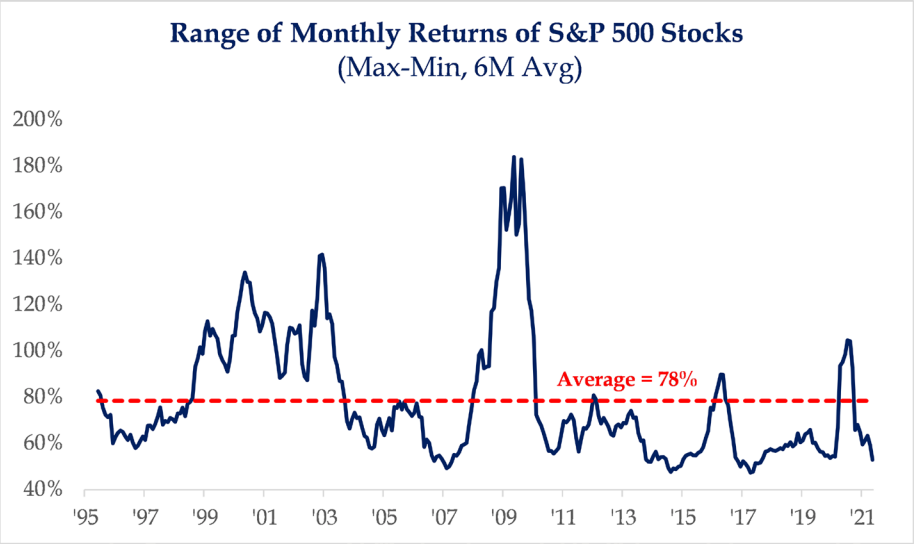
STOCK CORRELATIONS JUST OFF YTD LOW

Earlier this week, the rolling 65-day correlation of S&P 500 stocks hit a fresh year-to-date low and the lowest level since the beginning of the pandemic. A bout of volatility or correction would likely spur a spike in correlations. Still, the lower stock correlations present an opportunity for active managers to outperform the broader market.



RETURN DISPERSION REMAINS BELOW HISTORICAL AVERAGE

Despite the lower stock correlations, we have yet to see a durable turn higher in the return dispersion among S&P 500 stocks. Currently, the 6-month range of monthly returns is roughly 53%, well below the long-term average of 78%. If correlations were to continue lower, we would not be surprised to see return dispersion begin to turn higher, especially in the context of the second year of a bull market, a typically more difficult environment for stocks when compared to year one. For now, investors appear to be in a wait-and-see approach as policymakers plan their next actions.



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