RGB Perspectives

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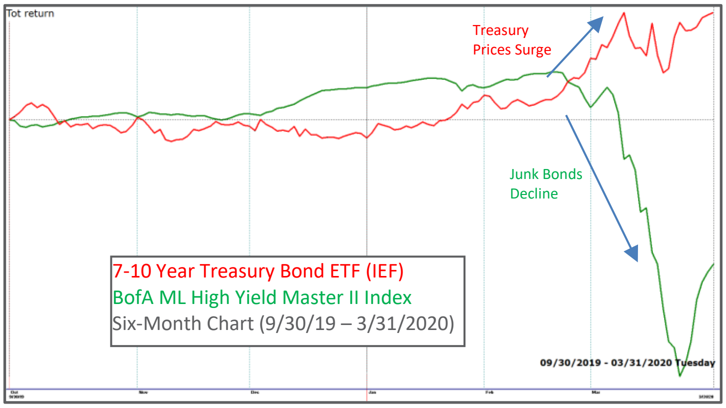
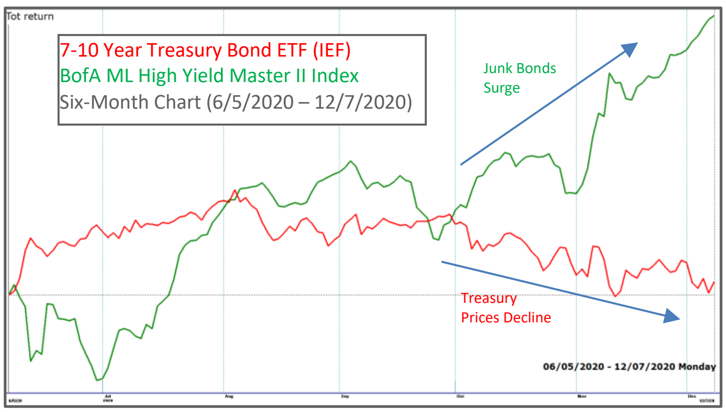
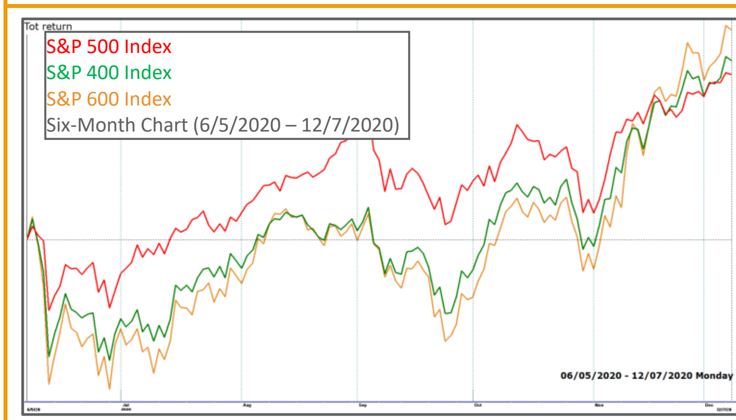


One of my favorite indicators for tracking the health of the stock market is the junk bond index. When market risk is elevated, junk bond investors demand a higher yield to compensate them for taking on additional risk. At the same time, investors tend to flee to the safety of US Treasuries which results in higher treasury bond prices.

This six-month chart ending March 31, 2020, shows this relationship when the coronavirus started to impact the US economy in mid-February. The 7-10 Year Treasury Bond ETF (IEF) started to climb higher at the same time the BofA ML High Yield Master II Index declined steeply. Risk was high!



While the number of cases is currently surging in the United States, surpassing levels seen at the initial stages of the pandemic, the financial markets are behaving very differently. The BofA ML High Yield Master II Index is surging higher at a time when the 7-10 Year Treasury Bond ETF (IEF) is declining. This reflects a low risk market environment.



Not only are junk bond prices rising, stocks across the market capitalization spectrum are also moving up. The S&P 600 Index (small-cap stocks) and the S&P 400 Index (mid-cap stocks) are outperforming the S&P 500 Index (large-cap stocks). Generally, this outperformance happens in market environments when investors are comfortable taking on the additional risk associated with mid- and small-cap stocks. The current rally is a broad-based uptrend that has strong momentum.

While it may not feel like the market should be trending up based on the current state of the pandemic, there is much less uncertainty today than there was 10 months ago when the virus started spreading across the United States. The Federal Reserve is extremely accommodative, supporting liquidity in the market. Congress is negotiating another stimulus package that would provide relief to families and businesses in need. And there is a highly effective vaccine that provides a sense of hope that life may return to some form of normalcy within the next eight to twelve months. Life transitioning to something more normal supports higher corporate profits in the future and therefore higher stock market prices.

The RGB Capital Group investment strategies remain fully invested. While I do not know what will happen in the future, I will continue to monitor the market and make changes to our allocations as necessary to protect our capital. If anyone is interested in reviewing the performance results of our investment strategies, please send an email to Lois (lois@rgbcapitalgroup.com), who will be happy to share a copy of the recent strategy performance reports with you.

Prepared with data through 12/7/2020