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TREASURY YIELD CURVE SIGNALS

The U.S. Treasury finances federal government budget obligations by issuing various forms of debt. The $23 trillion Treasury market includes Treasury bills with maturities from one month out to one year, notes from two years to 10 years, as well as 20- and 30-year bonds.

The yield curve plots the yield of all the various maturities of Treasury securities. Typically, the curve slopes upward because investors expect more compensation for taking on the risk that rising inflation will lower the expected return from owning longer-dated bonds. That means a 10-year note typically yields more than a two-year note because it has a longer duration.
A steepening curve (with longer dated yields higher than shorter-term yields) typically signals expectations of stronger economic activity, higher inflation, and higher interest rates. A flattening curve can mean the opposite: investors expect rate hikes in the near term and have lost confidence in the economy's growth outlook.

When the yield of longer-term Treasury maturities are lower than the yield on shorter-term Treasury maturities, the Treasury yield curve has become "inverted". While it may invert at various points along the yield curve, investors watch closely several related maturities as an indicator of future economic activity. One of the most closely watched indicators is the spread between the two-year Treasury and the ten-year Treasury.

The 2/10 Treasury curve has inverted before each recession since 1955, with a recession following between six and 24 months, according to a 2018 report by researchers at the Federal Reserve Bank. It offered a false signal just once in that time. (See Chart below with recessions noted in gray bars)

As shown in the chart from the St. Louis Federal Reserve website, (as of March 28) the spread between the two year and ten year Treasury maturities is dangerously close to inverting and has declined to only 11 basis points.

As reliable as this indicator has been in signaling economic slowdowns over the long term, very often when the yield curve inverts, we see suggestions it is due to unusual circumstances or it is simply wrong this time. So, it should come as no surprise that researchers at the Federal Reserve put out a paper on March 25th that suggested the predictive power of the spreads between 2 and 10-year Treasuries to signal a coming recession is “probably spurious,”.

Aside from the signals it may flash on the economy, the shape of the yield curve has ramifications for consumers and businesses as it may also slow economic growth by increasing the cost of borrowing for everything from mortgages to car loans.

When short-term rates increase, U.S. banks tend to raise their benchmark rates for a wide range of consumer and commercial loans, including small business loans and credit cards, making borrowing more expensive for consumers. Mortgage rates may also rise which can negatively impact purchasing power and dampen demand in the housing market. When the yield curve steepens, banks are able to borrow money at lower interest rates and lend at higher interest rates. Conversely, when the curve is flatter they find their margins squeezed, which may deter lending.

In summary, as investors and consumers, we should all be familiar with the current shape of the treasury yield curve and understand the implications of its changing patterns on economic and investing activity.

RANDY BEEMAN

What's the Best Age to Receive Social Security?

Advice from the Social Security Administration can guide your decision

One of the most vexing questions for anyone planning for retirement is: "What's the best age to start receiving Social Security benefits?" You've probably heard that you can begin receiving Social Security benefits at age 62 and that is true. But the benefits are "reduced" until you reach what's called "full retirement age."

Below is a publication pulled directly from the SSA – and it can help guide your decision as you and your financial advisor build your retirement plan:

When to start receiving retirement benefits

"At Social Security, we're often asked, "What's the best age to start receiving retirement benefits?" The answer is that there's not a single "best age" for everyone and, ultimately, it's your choice. The most important thing is to make an informed decision. Base your decision about when to apply for benefits on your individual and family circumstances. We hope the following information will help you understand how we fit into your retirement decision.

Your decision is a personal one

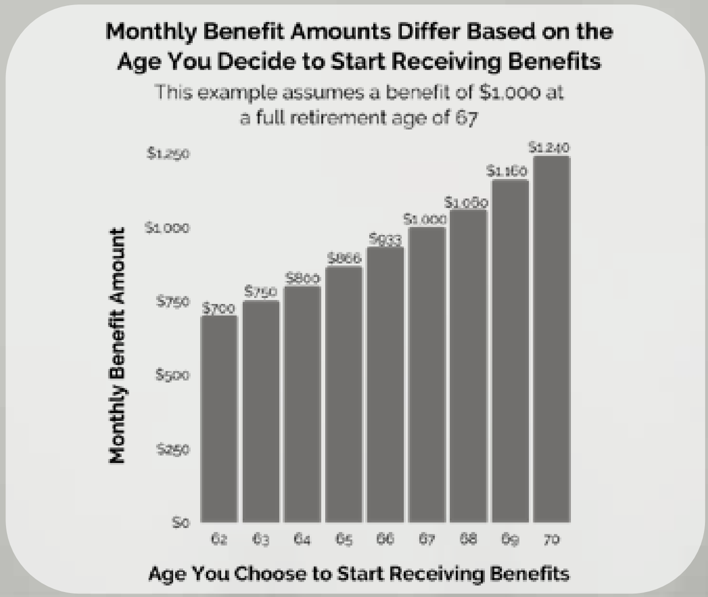
Would it be better for you to start getting benefits early with a smaller monthly amount for more years or wait for a larger monthly payment in a shorter timeframe? The answer is personal and depends on several factors, such as your current cash needs, your current health, and family longevity. Also, consider if you plan to work in retirement and if you have other sources of retirement income.

You must also study your future financial needs and obligations and calculate your future Social Security benefit. We hope you'll weigh all the facts carefully before making the crucial decision about when to begin receiving Social Security benefits. This decision affects the monthly benefit you will receive for the rest of your life and may affect benefit protection for your survivors.

Your monthly retirement benefit will be higher if you delay starting it

Your full retirement age varies based on the year you were born. Find your full retirement age here. We calculate your basic Social Security benefit — the amount you would receive at your full retirement age — based on your lifetime earnings. However, the actual amount you receive each month depends on when you start receiving benefits. You can start your retirement benefit at any point from age 62 up until age 70. Your benefit will be higher the longer you delay starting it. This adjustment is usually permanent: it sets the base for the benefits you'll get for the rest of your life. You'll get annual cost-of-living adjustments and, depending on your work history, may receive higher benefits if you continue to work.

The following chart shows an example of how your monthly benefit increases if you delay when you start receiving benefits.



Let's say you turn 62 in 2022, your full retirement age is 67, and your monthly benefit starting at full retirement age is $1,000. If you start getting benefits at age 62, we'll reduce your monthly benefit 30% to $700 to account for the longer time you receive benefits. This decrease is usually permanent.

If you choose to delay getting benefits until age 70, you would increase your monthly benefit to $1,240. This increase is the result of delayed retirement credits you earn for your decision to postpone receiving benefits past your full retirement age. The benefit at age 70 in this example is about 77% more than the benefit you would receive each month if you start getting benefits at age 62 — a difference of $540 each month.

Retirement may be longer than you think
When thinking about retirement, be sure to plan for the long term. Many of us will live much longer than the "average" retiree, and most women live longer than men. About 1 out of every 3 65-year-olds today will live until at least age 90, and 1 out of 7 will live until at least age 95. Social Security benefits, which last as long as you live, provide valuable protection against outliving savings and other sources of retirement income.

Again, you'll want to choose a retirement age based on your circumstances so you'll have enough Social Security income to complement your other sources of retirement income.

Married couples have two lives to plan for
Your spouse may be eligible for a benefit based on your work record, and it's important to consider Social Security protection for widowed spouses. After all, married couples at age 65 today would typically have at least a 50-50 chance that one member of the couple will live beyond age 90. If you are the higher earner, and you delay starting your retirement benefit, it will result in higher monthly benefits for the rest of your life. If you die first, it will result in higher survivor protection for your spouse.
When you are receiving retirement benefits, your children may also be eligible for a benefit on your work record if they're under age 18 or if they have a disability that began before age 22.

You can keep working
When you reach your full retirement age, you can work and earn as much as you want and still get your full Social Security benefit payment. If you're younger than full retirement age and if your earnings exceed certain dollar amounts, some of your benefit payments during the year will be withheld.

This doesn't mean you must try to limit your earnings. If we withhold some of your benefits because you continue to work, we'll pay you a higher monthly benefit when you reach your full retirement age. So, if you work and earn more than the exempt amount, it won't, on average, decrease the total value of your lifetime Social Security benefits — and can increase them.

Here is how this works: When you reach full retirement age, we'll recalculate your benefit to give you credit for months you didn't get a benefit because of your earnings. In addition, as long as you continue to work and receive benefits, we'll check your record every year to see whether the extra earnings will increase your monthly benefit.

Don't forget Medicare
If you plan to delay receiving benefits because you're working, you'll still need to sign up for Medicare 3 months before reaching age 65. If you don't enroll in Medicare medical insurance or prescription drug coverage when you're first eligible, you can sign up later. However, you may have to pay a late enrollment penalty for as long as you have coverage."

Source: SSA.gov

MANAGING YOUR PORTFOLIO DURING EQUITY MARKET VOLATILITY

Geopolitical upheaval, Federal Reserve actions and rapid inflation have driven increased levels of market volatility in 2022 and, with that, some investors may question whether they should reposition portfolios into a more defensive posture. If you listen to the investment media, there are lots of informed opinions about what the markets are doing and where they're going. Of course, their conclusions are highly divergent and range all the way from "buy the dips" to "flee to cash".

In my opinion, if an individual investor is taking action in their portfolio based solely on the short-term movement of the markets, they are likely making decisions based more upon emotion than rationale thinking and neither of these options is the correct path. The idea that someone in the media or an investment professional (even with above-average intelligence or a lot of research) can anticipate the movement of the broad markets is a very attractive story. It makes a good premise as the basis to sell a lot of books, but the fallacy is that, to my knowledge, it has never been successful.

In contrast to trying to time the market, investors would be better served to implement a disciplined rebalancing strategy during both broad market advances and declines. Rebalancing back to targeted allocations (as defined in financial planning documents) by reducing equity exposure when markets are advancing seems to make sense to most individual investors. They are reducing risk and harvesting gains. However, the action of rebalancing by adding to equity exposure during market declines is often fraught with unease and apprehension by individual investors.

Assuming the investor has a sufficient time horizon (which is determined in the financial plan) and the understanding that many times in history the short-term volatility has provided attractive opportunities to add to quality holdings at lower valuations, consistent rebalancing during market weakness can be accretive to long-term portfolio returns.

In my opinion, investors should not try to time market movements, but neither should they simply "invest and forget". The best strategy for both rising and declining markets, and especially during periods of increased market volatility, is to "invest and manage" the portfolio.

RANDY BEEMAN

WHAT'S HAPPENING AT YHB WEALTH ADVISORS?

YHB Wealth Advisors' Director, Randy Beeman, had the pleasure of touring the Emil & Grace Shihadeh Innovation Center. They are doing amazing work and we are so grateful to be a small part of it.

Thank you to everyone who attended our 2022 Market Outlook webinar in February! We were able to connect with 80 participants online. Couldn't make it? No worries! Email info@YHBwealth.com and we will send you the recording.

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