OPPENHEIMER INVESTMENT ADVISERS



Fixed Income Bulletin

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Taxable Fixed Income

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"Nobody rings a bell at the bottom"

Here in the Midwest and particularly in central Indiana, we tend to be conservative in nature. We aren't too flashy with our market rhetoric, pontifications, or table-pounding convictions, but we know an opportunity when we see one. Over the years, we have had the privilege of gleaning wisdom from many insightful investment professionals. Our own Chairman, Bud Lowenthal, offered us a bit of wisdom at the height of the financial crisis in 2008 that has stuck with us through the years. He said, "Guys, nobody rings a bell at the bottom, there are opportunities being presented, we need to take advantage of those for clients." We believe such an opportunity exists today in fixed income.

Just to be clear, we are not saying fixed income is "screaming buy" at this point. However, the purpose of this bulletin is to encourage existing and future Financial Advisor clients to begin having conversations with their clients about fixed income as a viable and attractive near term total return opportunity and long-term income generator. One of our most prolific FA clients, Eric Lyons, said it best recently: "fixed income is no longer an inconsequential asset class." We couldn't agree more.

Reaching out and talking to clients takes time, but this is the time to begin those conversations about the opportunities developing in fixed income. It will take time to open accounts, fund them, and begin investing. For existing clients, talking about and positioning portfolios with cash to be added to the portfolios is a very good idea. For clients frustrated by recent performance of their fixed income allocations, we believe our products offer an attractive alternative. Our typical duration is 5 years or less, shorter than competing benchmarks. And our portfolios benefit from our disciplined fundamental analysis and securities selection process. Even if rates drift higher from here, our portfolios will potentially outperform due to these factors.

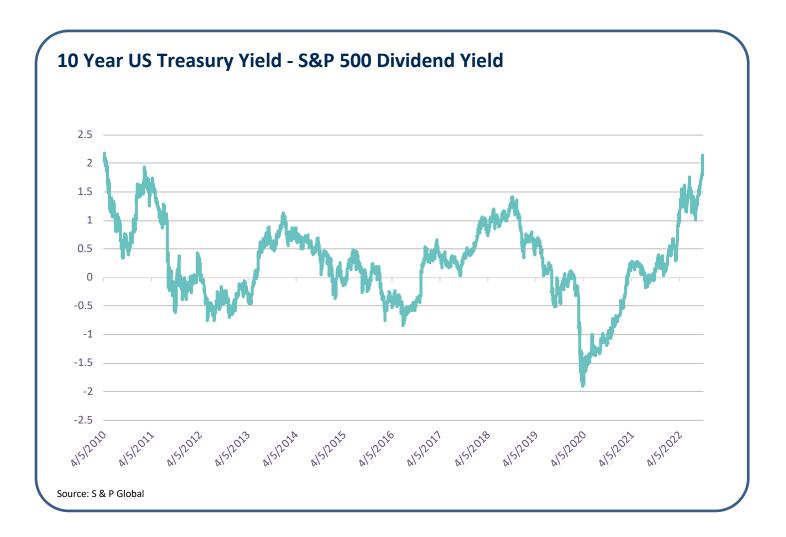
The FOMC will likely increase rates another 75 basis points at their November meeting and probably another 50 basis points in December. This could cause the yield curve to shift higher, but we believe Fed hawkishness is largely priced in at this point. As Fed Chairman Jerome Powell suggested during this week's FOMC's press conference, rates have moved "into the very lowest levels of what might be restrictive." What does that mean? It means that even though the FOMC is going to move rates higher, they believe they are past the terminal rate, the rate where longer term Core PCE stabilizes at 2% and unemployment is considered to be optimal (something greater than the current 3.7%). The Fed will continue to push rates into restrictive territory until the economy slows enough to push inflation down. Their posture is restrictive at present, but at some point it will shift to neutral or even dovish when it becomes clear that inflation and growth are definitively slowing. You want to be invested in fixed income when that shift happens!

Will that "bell ring" in December, January, or later? No one can predict, but we do know that opening accounts and being positioned to fund them during the fourth quarter of this year would likely be a "smart

money" move. We believe dollar cost averaging into a portfolio over the next 6-9 months will likely result in a near-term total return winner and long-term income generating success for clients.

The case for why it's time to consider fixed income investment:

We think the relative value between stocks and bonds favors bonds currently. The relationship between the 10 year Treasury yield and the S&P 500 dividend yield is at its widest point since April 2010. The 10 year Treasury now yields +1.96% more than the S&P 500 dividend yield. The previous peak was +2.18% on 04/05/2010 when the 10 year Treasury was trading near 4.00% - similar to today's levels. Peaks in this relationship are typically followed by outperformance in bonds vs. stocks, as evidenced by the data below.



The cumulative two-year total returns on stocks and BBB corporate bonds subsequent to the last peak in this relationship look similar:

S&P 500: **+22.76%**ICE BofA BBB US Corporate Index: **+20.38%**

The cumulative two-year total return on stocks and BBB corporate bonds subsequent to the last trough in this relationship looks much worse:

S&P 500: +105.42%
ICE BofA BBB US Corporate Index: +15.24%

Over the long-term, historically, the greater risk in stocks will produce greater returns. However, there are times, like today, where the prospects for fixed income compare more favorably.

A final point that we'd like to make is that when financial markets are selling risk generally, as is the case today, fixed income reliably outperforms stocks. For example, let's look at 2022 year-to-date performance:

S&P 500: -20.24%

ICE BofA BBB US Corporate Index: -17.34%

Another recent example would be the COVID-induced sell-off in early 2020 (02/19/2020 - 03/23/2020):

S&P 500: -33.79%
ICE BofA BBB US Corporate Index: -15.37%

We think that bonds are attractive at this time as indicated by the 10-year Treasury yield vs. S&P 500 dividend yield spread and the general risk-off sentiment in the stock market. Historical evidence suggests that investors can reduce downside exposure while preserving much of the upside potential by investing into bonds at this time.

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