BOXWOOD

CAPITAL MANAGEMENT, LLC

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As expected, the moves in interest rates and inflation dominated how the market performed over the quarter. The two had a bigger influence than any other event, even Putin threatening the use of nuclear arms. If you told me the direction of the yield on the 2-year or 10-year Treasury bond, I could tell you how the market was performing for the day. Let's proceed by reviewing some topics in bullet point format:

- Jerome Powell's Jackson Hole Symposium speech was more aggressive in its tone on fighting inflation than the market had expected. In a speech that lasted less than 10 minutes, Powell mentioned inflation 46 times. The Dow Jones Industrial Average fell 1000 points. Since the speech, the S&P 500 index is down around 13%. Powell acknowledged that unemployment would rise while fighting inflation. This speech all but guaranteed a hard landing to the economy. The economy is going into a recession, if not already.
- FedEx may be the most important bellwether to the domestic and global economy. On September 15th the CEO said he expects the global economy to enter a recession.
- During the ultra-low interest rate environment over the past several years, the acronym TINA described the limited options investors had other than stocks. TINA stood for "There is no other alternative." That is no longer the case. The yield on the 6-month Treasury Bill is currently 3.95%. With that risk free rate of return, bonds will be attractive to some if not many.
- The U.S. dollar is very strong. The index that tracks the U.S. dollar against a basket of other major currencies is on pace to have its best year since the index's inception in 1985. This will be a headwind to many S&P 500 company's earnings. A strong dollar makes domestic company's international earnings less valuable when denominated back into U.S. dollars.
- Investors only pay a certain amount for earnings. They pay attention to the price/earnings ratio. Simple arithmetic tells us as that as earnings come down so will the price of stocks if the ratio stays the same. Further, in slow growth times, investors pay even less for the P/E multiples, putting further downward pressure on stock prices. Earnings generally haven't suffered so far during this bear market. This will likely contribute to extended stock price declines into the next quarter.
- The Fed sees the median rate on the fed funds to be 4.4% by the end of the year. The median rate is determined by the so-called dot plot of the FOMC. It is a median, so some dots are higher and some lower (they're not all 4.4), so some participants see rates exceeding 4.4%.

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- The Congressional Budget Office projects that interest payments on the national debt will be $1.2 trillion by the end of the decade. If interest rates go higher than their prediction in the modeling (which was done in May 2022), the interest payments will be even higher. Some say an increase of 1% in the national borrowing rate increases the interest expense by $100 billion. Taxes on the investor class will likely have to increase over this time. Higher taxes on this group will mean less flows into stocks and stock funds than otherwise. This a long-term headwind to stock investing.

Powell is going to fight inflation at all costs. We will likely have lost jobs and a recession. We learned over the quarter that the market had not priced in Powell's aggressiveness, we'll have to see whether a recession is priced in or not.

Investors of ***The Jensen Opportunity Fund*** will receive their quarter-end statements within the week.

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