The Bull Market (in bonds) is Over!

350 Old Ivy Way, Suite 100
Charlottesville, Va 22903-4897
Phone: 800-293-9104
Fax: 434-293-9002

Peter W. Tuz, CFA
President &
Senior Security Analyst

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One of my modest New Year's resolutions is to provide more content for our web site, www.chaseinv.com. The goal is to have something of interest monthly. With January nearly over, this is the first of what I hope will be 12 reasonably short market comments this year.

Most of you have heard the old adage that "so goes January, so goes the year." Let us hope this is the case in 2018. Equity markets have gotten off to a roaring start, with both the S&P 500 Index and Dow Jones Industrial averages at their 15th new all-time high for the year today (January 29th). We believe the continuing rally is primarily due to the optimism over corporate earnings due to the recently enacted tax act. We are in the heart of fourth quarter earnings reporting season this week and it is a rare company that does not point to the new tax law as a positive for its business. Moreover, most large public companies seem to be using some of the new tax law's benefits to reward employees either through a cash bonus, higher wages or grants of stock. At least some of this money will find its way into the overall economy, further boosting growth this year.

One of the casualties of the stronger economy is likely to be the ultra-low long-term interest rates we have enjoyed since the financial crisis of 2007-2009. With a strong economy generating very strong employment numbers, it's hard not to believe wages will continue to rise. They are a significant contributor to inflation data and rising inflation generally begets rising interest rates.

As the chart below shows, we've more or less been on a downhill slope of falling rates since September 30, 1981 when the rate on a 10-year U.S. Treasury bond hit 15.8%. The bottom in rates occurred on July 4, 2016 when the 10-year rate bottomed at 1.37%.

Source: www.macrotrends.net

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The uptick in rates so far is fairly insignificant. Today's (January 29th) level of 2.70% is 29 basis points higher than year-end 2017's 2.41%. But the direction doesn't seem to have any reason for changing anytime soon. They are undoubtedly being held down by even lower rates in many other countries as the following table shows:

U.S. 10yr	2.70%
Germany 10yr	0.69%
Italy 10yr	2.04%
Spain 10yr	1.43%
U.K. 10yr	1.46%
Japan 10yr	0.09%

Source: www.marketwatch.com January 29, 2018

What does this mean for investors? Staying in shorter maturity bonds is probably a wise option at this time. For equity investors, it probably means little up to a point. At 2.70% 10-year bonds don't provide much of an alternative to investing in equities. And we believe the potential for substantial future earnings growth this year continues to make equities more attractive to bonds even with using a higher discount rate to present value those future earnings.

As always, we welcome your comments and would enjoy discussing your investment needs at any time.

Warm regards,

Peter

The S&P 500® Index is a broad based unmanaged index of 500 stocks, which is widely recognized as representative of the equity market in general.

The Dow Jones Industrial Average is an unmanaged index of common stocks comprised of major industrial companies and assumes reinvestment of dividends.

You cannot invest directly in an index.

A basis point is equal to 1/100th of 1%.

Index performance is not indicative of fund's performance. Past performance does not guarantee future results. Current performance can be obtained by calling 888-861-7556.

Click here for the top ten holdings as of the most recent quarter end and performance to the most recent quarter- and month-end for the Chase Growth Fund.

Click here for the top ten holdings as of the most recent quarter end and performance to the most recent quarter- and month-end for the Chase Mid-Cap Growth Fund.

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