THE DUGDALE | HAYES INVESTMENT GROUP

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D|A|DAVIDSON

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Get Paid Less for Longer?

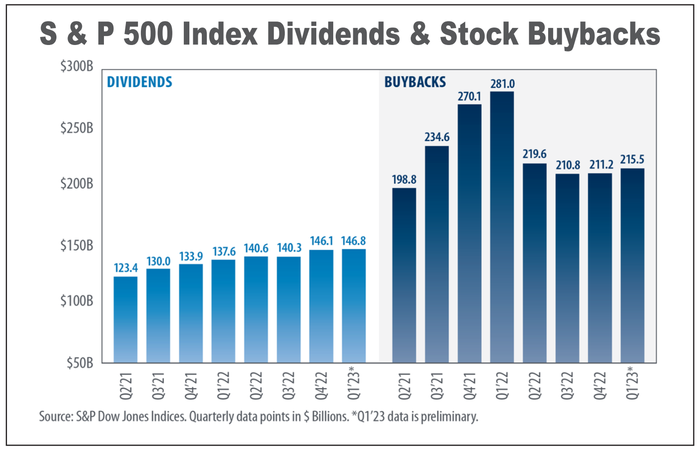
The inverted yield curve is still firmly in place. In our last newsletter, we highlighted the yield curve and the fact that 3-month CDs and bonds currently pay a higher rate of interest than 3 year CDs and bonds. Naturally fixed income investors tend to seek the higher yield, but placing all your money in short-term maturities carries risks of its own. Since CDs carry FDIC insurance and government bonds are of extremely high credit quality, there isn't much investment risk; the risk is "reinvestment risk". The reason that longer maturities pay less than shorter maturities is because the bond market thinks interest rates are going to fall over the next six to 24 months. So larger pools of money are moving into bonds and CDs maturing in two or more years. The demand for those securities results in a lower yield. But those investors are willing to lock in that lower yield because they think it will be even lower in the near future. They are willing to get paid less today because they think that rate will look better "tomorrow". If investors today buy only short maturities and the bond market is right, then an investor with securities maturing in the next six to 24 months may have to accept a lower yield when they go to reinvest the proceeds. This would be especially true if we return to a normal yield curve when short maturities carry a much lower interest rate than longer ones.

The way to help mitigate reinvestment risk is to build a "ladder" with staggered maturities. So, an investor could simply place equal amounts of capital in securities that mature in one year, two years, three years, four years, and so on. When the one-year instrument matures, then they would take those proceeds and add to the end of their ladder. Since no one is able to accurately predict interest rate moves, this ensures that you will get the best "blended" interest rate available. The strategy of laddering fixed income investments is valid regardless of what the yield curve looks like.

Given the current interest rate environment we have added some money to longer maturity bonds in our managed portfolios and are encouraging people to extend maturities past one, two or three years if they are certain they won't need the principal back in that time frame. If there is a purpose for the money in a defined time frame, then the maturity should align with that and you just take the interest rate that the market is giving.

Dividends and Buybacks

Companies have a number of ways in which to return capital to their shareholders. As the chart below shows, cash dividends and stock buybacks have been two of the more popular methods that corporations have utilized in recent years. Dividend distributions steadily increased over the period, while share buybacks receded after peaking in Q1'22. Even so, buybacks remain a significant source of overall capital disbursements. Total shareholders' return of dividends and buybacks stood at $1.431 trillion during over the trailing 12-month period ended March 2023.



- The all-time high for the S&P 500 Index's quarterly dividend payout was the $146.8 billion distributed in Q1'23, up from the previous record of $146.1 billion in Q4'22, according to data from S&P Dow Jones Indices.
- As the chart shows, dividend distributions increased on a quarterly basis for six of the quarters represented in today's chart. In total, the companies that comprise the S&P 500 Index distributed $573.7 billion in dividends for the trailing 12-month period ended March 2023, up from $524.9 billion for the same time frame ended March 2022.
- Quarterly stock buybacks totaled $215.5 billion in Q1'23, down from a record high of $281.0 in Q1'22, but up from$211.2 billion in Q4'22, according to data from S&P Dow Jones Indices.
- Despite the downward trend revealed in the chart, annual share repurchases stood at a record $922.7 billion for the 2022 calendar year.
- Year-to-date through Q1'23, the S&P 500 Index sectors that were most aggressive in repurchasing their stock were as follows (% of all stocks repurchased): Financials (21.8%); Information Technology (21.3%); and Health Care (10.8%), according to S&P Dow Jones Indices.

Despite quarter-over-quarter increases in both dividend distributions and share repurchases, the companies that comprise the S&P 500 Index increased their cash holdings. Corporate cash holdings, as measured by the S&P 500 Industrials (Old) Cash & Equivalents (excluding Financials, Utilities and Transportation companies), totaled $1.65 trillion (preliminary) on 3/31/23, up from $1.58 trillion on 12/30/22. As indicated in today's chart, stock buybacks remain below the high set in Q1'22. That said, buybacks increased in each of the last two quarters, indicating that the 1% tax on buybacks that went into effect this year has not slowed demand for share repurchases, in our opinion. Dividend distributions remained relatively consistent over the time frame above. In our view, this is to be expected. Generally, companies tend to avoid cutting their dividend, as the action can be seen as an indication of financial weakness.

Source: First Trust Market Commentary Blog 7/11/23. This chart is for illustrative purposes only and not indicative of any actual investment. The illustration excludes the effects of taxes and brokerage commissions and other expenses incurred when investing. Investors cannot invest directly in an index. The S&P 500 Index is an unmanaged index of 500 companies used to measure large-cap U.S. stock market performance. The information presented is not intended to constitute an investment recommendation for, or advice to, any specific person. By providing this information, First Trust is not undertaking to give advice in any fiduciary capacity within the meaning of ERISA, the Internal Revenue Code or any other regulatory framework. Financial professionals are responsible for evaluating investment risks independently and for exercising independent judgment in determining whether investments are appropriate for their clients.

Important Administrative Updates

Trusted Contact

Part of our commitment to our clients includes taking steps to protect you and your assets from fraud, financial exploitation, and other abuses. One important step you can take to help us safeguard your assets is to provide the name and contact information of a Trusted Contact. A Trusted Contact is someone you authorize us to reach out to in certain limited circumstances. Please know, your Trusted Contact is not authorized to conduct business or request information on your accounts and is not a substitute for a Power of Attorney. We would reach out to your Trusted Contact under limited circumstances, such as: to address possible financial exploitation; to confirm your current contact information, health status, or the identity of any legal guardian, executor, trustee, holder of a power of attorney, or similar; or as otherwise permitted by FINRA Rule 2165 (Financial Exploitation of Specified Adults). The Trusted Contact cannot place trades, request account information, or otherwise act on your behalf and is not a substitute for a Power of Attorney (POA). Your trusted contact must be at least 18 years old and cannot be an employee of D.A. Davidson (unless the employee is an immediate family member). It is recommended that your trusted contact not be the account co-owner, trustee or attorney-in-fact (POA).

To add a Trusted Contact to your accounts, simply call Kate or Steph. They will take the information and a signature is not required to make this addition.

Client Access Enrollment Updates

We are pleased to inform you of several enhancements to D.A. Davidson's Client Access website. These include expanded enrollment for all account owners and a new Secure Document Share feature. To help us implement these changes and evolve your online experience, we are now requiring current Client Access users to complete a simple enrollment update. Through this update, you will verify your identity, confirm your eDelivery preferences, and refresh your security questions. Your ability to view accounts for other members of your household will change, so consider taking the following steps before completing the enrollment update:

- Encourage other members of your household to enroll for Client Access by completing Self-Enrollment at access.davidsoncompanies.com. Until each member self-enrolls and grants you Guest Access, you will not be able to view their accounts.
- Additionally, until each member self-enrolls and elects eDelivery, they will receive their account statements and other communications via USPS mail. After the enrollment update is complete, you will gain access to new service features, including Secure Document Share, which enables you to share sensitive documents behind the added security of the Client Access login, instead of through physical mail or email.

For a limited time, you have the ability to defer this update, but when the deferral period is over, you may not see all household accounts when you log in. (i.e., if a spouse has not set up their own login and given guest access, then that spouse's IRA(s) will not show).

We appreciate your taking the time to complete the requested update. Log in to the Client Access website for additional information about these changes. Our dedicated Client Access Support Team is also available to assist you and can be reached via phone at 1-800-575-9503 or via email at clientaccesshelp@dadco.com.

Left to right: **Kate Absec,** FPQP®, Senior Registered Associate; **Brad Dugdale,** Senior Vice President, Financial Advisor, Portfolio Manager; **Stephanie Brunner,** Client Associate; **Darin Hayes,** CFPA, CWS®, Senior Vice President, Financial Advisor, Portfolio Manager.

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Team Tidbits

Brad

Summer started in May! The weather this season is the best that I can recall in the last 30 years we have lived in CdA. In early July we traveled to Santa Fe, New Mexico for a D.A. Davidson event. In New Mexico I learned a new culinary term "Christmas style", where you get both the red and green sauce on your dish. On July 18th, Shariae and I celebrated our 42nd wedding anniversary. I'm lucky to have her as a life partner. My oldest son, Bradley, has arrived for the summer, and Dani and Chase have been spending time at Hayden Lake with us. Then there is little Bella! Shariae and I can't describe how much fun it is to watch her grow before our eyes. Bella is a happy baby and growing like a weed. It's been a fun golf season. I keep battling Father Time with all my gadgets and video instruction. Chase, Shariae and I have been golfing together, and Dani is being courageous and taking a few whacks at the golf ball too. Summer is a special time in North Idaho.

Darin

I don't need to go anywhere for a while. Our trip to Europe was amazing but it really took it out of me. There is a reason I live here in the Pacific Northwest and it can be summed up as: not too hot, not too many people. The heat and the crowds started to get to me toward the end, but Monique and I loved having the time away with Teagan and we met some great people and saw some pretty amazing things. We spent about three days each in Munich and Venice (with a day trip to Salzburg from Munich), then made our way through Slovenia to Zagreb, Croatia and then down to Split via Plitvice Lake National Park. That park was amazing. Google will show you some pictures. But as I said, we are very happy to be home and enjoying the summer. By the time this newsletter reaches you, we will be packing Teagan's things into a car to get her down to the University of Idaho for Fall semester. I think all three of us are both very excited and nervous about this next chapter, but we are also confident that she will do well. It will be interesting to see how Monique and I do as empty nesters since she is our only child.

Kate

Happy Summer! At the writing of this tidbit, we are in full summer mode in Coeur d'Alene and experiencing some real heat. We know we are so fortunate to live near water and, knock on wood, are not experiencing the forest fire smoke that seems to add 'suffocation' to the 'heat'.

Terry and I don't plan any travel in summer for obvious reasons. We have had several occasions to have our daughters and their families this summer and we have babysat the grandkids. That is certainly a young person's game. We are certainly wiped after a weekend of a toddler or two.

It is with heavy heart I write to tell you of the passing of Terry's 92-year-old mother, Barbara. She had a wonderful life and was able to live in her home (where she'd been for 62-63 years) until her final days. She had a peaceful and quick passing and we are thankful for that. In my opinion, that's a sign of a life well-lived. I've mentioned to many of you that I truly hit the jackpot with my in-laws and loved them as my own. They were beautiful people and wonderful, loving and doting grandparents as well.

Until I write again, I hope you're enjoying all the fun summer has to offer. Go ahead, enjoy that s'more!

Steph

Life is good right now and that's all there is to it. We are enjoying the beautiful weather and all the activities that come with it. There is no time to rest when we only have a few great months to get out and soak up all that summer in our area offers. Dawson is LOVING her new preschool and is flourishing. She has changed so much over that last few months and has really started to let her personality and wits shine. She is a little class clown and loves to be silly and animated. She gets that from her dad, I think. We will spend the last bit of our summer landscaping our backyard, which is no small project. I think Matt and I might be a little crazy because we always end up doing our outside projects during the hottest days of summer! Hopefully, I will have a freshly planted lawn the next time you read this. Anywho, enjoy each day to the fullest while the great weather lasts! As always, stay classy.

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