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AlphaWealth Monthly Brief

"Our greatest weakness lies in giving up. The most certain way to succeed is always to try just one more time."

- Thomas A. Edison

In this month's edition of the brief, "Bond King" Bill Gross issues a warning to bond investors. We also highlight a recent interview with Jamie Dimon of JPMorgan in which he addresses risks facing the US economy.

"Bond King" Bill Gross' Warning to Bond Investors

Bill Gross, former Chief Investment Officer at PIMCO, warned that bond investors' pain may not be over yet even though the Federal Reserve is nearing the end of an unprecedented rate hiking cycle. In a recently published investment outlook, Gross said bonds are headed for a third straight year of losses due to factors such as persistent inflation and widening fiscal deficits. He encourages investors to hold less Treasuries and Corporate Bonds in their portfolios, instead focusing on alternative investments that provide attractive yields and downside protection.

At last week's September meeting, The Fed kept policy rates unchanged, once again signaling that borrowing costs are likely to remain higher for longer until inflation is well on its way back to target. In response, Treasuries sold off with the ten-year rate reaching 4.5%, a level not seen since 2007.

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With this as the backdrop, Gross struggles to envision a world in which the 10-year rate drops below 4%. Gross points to the expanse of fiscal policy in recent years, with the government throwing out "helicopter money" propelling consumer spending and making it difficult to tame inflation. Secondly, about 30% of the more than $30 trillion Treasuries outstanding will mature in the next 16 months. On top of that, he said, the Fed is selling about $1 trillion of its bond holdings. "Who's going to buy them at existing yield levels?" he asked. In Gross' view, the 10-year Treasury is already priced for a 2% inflationary world. Historically, the 10-year rate yields 1.35% more than the Fed Funds rate. Even if the policy rate drops to 2.5%, that puts the 10-year at close to 4% under the best possible scenario. Under these circumstances, says Gross, a bond bull market is hard to envision.

Jamie Dimon Urges Caution

Chairman and CEO of JPMorgan, Jamie Dimon, recently sat down for an interview with the *Times of India* where he discussed a wide range of topics including risks facing the US economy and his advocacy for employees to return to the office. Check out these highlights from the interview below.

On the risks of a hard landing for the US economy: "No one knows. There is a range of outcomes. It will be affected by everything else - Ukraine, oil, gas, war, Europe. I would be cautious. I think we are feeling pretty good because of all the monetary and fiscal stimulus. But it may be a little more of a sugar high. We have to deal with all these serious issues over time, and your deficits can't continue forever. So, rates may go up more. But I hope and pray there is a soft landing. When rates go up sharply, there is stress in debt repayments. How are businesses living with such high rates? Going from zero to 2% was almost no increase. Going from zero to 5% caught some people off guard, but no one would have taken 5% out of the realm of possibility. I am not sure if the world is prepared for 7%. I ask people in business, 'are you prepared for something like 7%?' The worst case is 7% with stagflation. If they are going to have lower volumes and higher rates, there will be stress in the system. We urge our clients to be prepared for that kind of stress."

On advocating for return-to-office: "JPMorgan is a microcosm of the broader people. About 60% of the people are in office 100% of the time, which was the case even during Covid for manufacturers, bank branches, doctors, hospitals, police and firemen. So, it is the other 40% that you are talking about. There are certain jobs where you can work from home. I think there is a whole function of jobs where people are doing two or three days where it is unclear. You have to be very specific. Does it work for the company? The clients? There are negatives; it is not just binary. If you are a young person, how do you learn? It hurts spontaneity and creativity. It slows down management decision-making."

Fast Facts

From 2021 to now, investments in Artificial intelligence totaled nearly $94 billion. If AI continues this growth trajectory, it could add 1% to the U.S. GDP by 2030.- Forbes

College grads born in the 1960s had two to three times the wealth of non-grads. But those born in the 1980s had only a bit more wealth than high school graduates born in the same decade. The culprit: The rising expense of college and student debt– The New York Times

Global economic losses from natural disasters in 2022 stood at $313 billion, with only $132 billion of that amount insured – making 2022 the fifth costliest year for insurers on record– Aon

Chinese goods made up 13.3% of U.S. imports during the first six months of this year- the lowest level since 2003. The peak was nearly 22% in 2017– The Wall Street Journal

Total pay for NFL running backs has increased just 11% since 2011, compared with at least 90% for every other offensive position. Not a single running back ranks in the league’s 100 highest-paid players. - MorningBrew

Deloitte report from August found that 66% of remote workers would quit their jobs if they had to go back into the office five days a week. When Grindr, the dating app, told all 178 employees to return to the office at least two days a week last month- roughly 45% resigned- MorningBrew

Contact Us

As always, feel free to reach out to us if you have any questions regarding your investments or financial plan or would like to schedule a meeting with our advisors.