Morgan Stanley

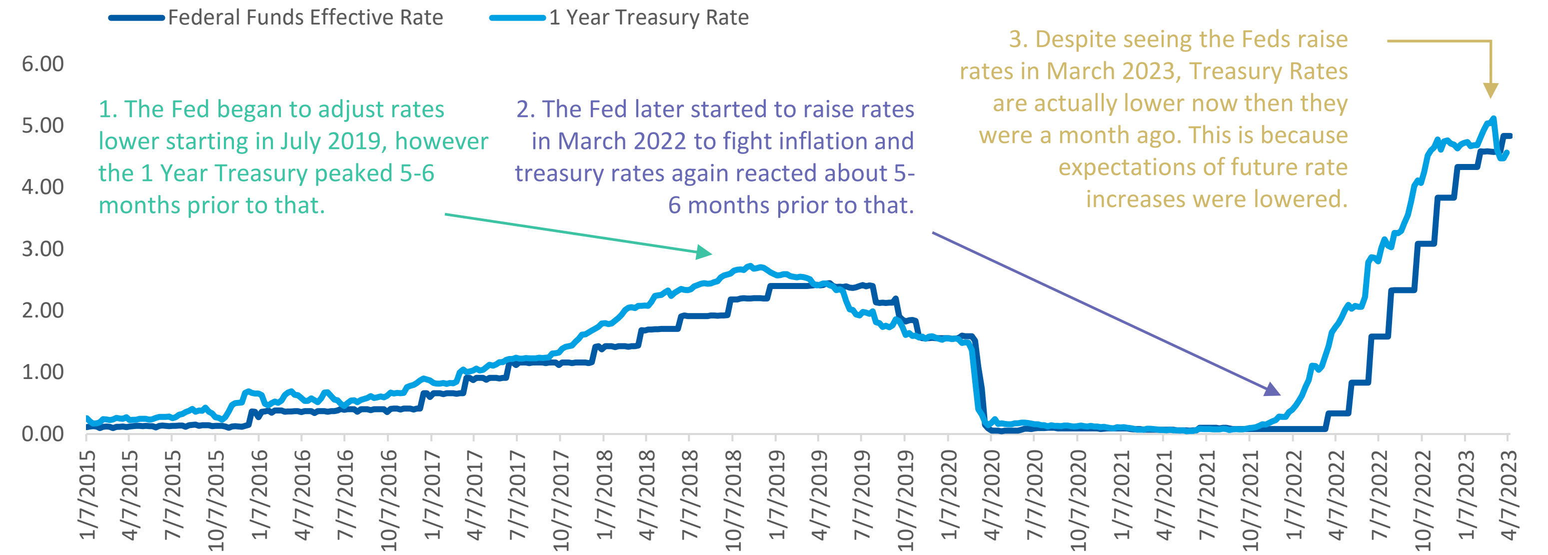
The Balog Group at Morgan Stanley

Charts of the Week – 04/17/2023

Investments are forward-looking. Here is an example: a company is estimated to have their revenue grow by 18% in the next quarter, a fantastic amount if that goal is hit. And in the company's next quarterly earnings announcement they state that they did in fact grow sales by 18% - what would happen to the stock price? Disregarding all other factors, probably not much because investor expectations were met. If on the other hand they only grew by 16% (still a rather impressive number), their stock price would likely go down! Sales growth by itself is meaningless. For a stock price to go up in a material way, companies need to exceed the expectations of their investors.

This forward-looking phenomenon is no different when discussing bonds and interest rates. In fact, we can visualize how investors look into the future when pricing short-term interest rates. Look at the infographic below to get a feel for what we're talking about.

Because the Federal Reserve has been transparent in their actions, you'll notice treasury rates have moved prior to FOMC announcements. This means rates likely will peak months before the FOMC actually begins cutting rates.



Source: St. Louis Federal Reserve

Anouchka Balog, CFP®
Financial Advisor

Rita Kikawa
Portfolio Associate

Christopher Mullery, CRPC®
Business Development Director

Steven Anderson, CFA® CFP®
Portfolio Management Assoc.

Visit our website at: https://advisor.morganstanley.com/the-balog-group
Connect with Anouchka on LinkedIn: https://www.linkedin.com/in/anouchka-m-balog

Sources:

1. St. Louis Federal Reserve - Rates

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Investment Advisor Representative; General Securities Representative; Managed Futures
NMLS#: 1282780
CA Insurance License #: 0A87150

28202 Cabot Road, Suite 500
Laguna Niguel, CA 92677
Direct: 949 365 5306