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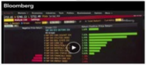
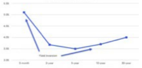
Week in review

The employment question has gotten a lot of recent attention not just from the Federal Reserve Bank, but the overall capital markets. I certainly believe this was the major motivation for the resent interest rate cut and had little to do with the real estate market. The consumer discretionary index has been the biggest gainer in the S&P 500 over the last month (see chart). If the labor market starts to fall in a meaningful way big consumer stocks would start to unwind. Even though we have seen the 41st all-time market high occurring in seasonal volatility (Sept-Oct) in an election year. Should we look for downside protection? One typically doesn't see cutting cycles in a robust economy. While I look at the yield curve one can't help but continue to clip coupons in the (intermediate) belly of the curve. But should we be stepping out of cash now as difficult as it may feel. Certainly, when yields were above 5% which certainly isn't the case anymore without longer duration or down quality risk. I hear lots of analyst talk about this pause period being the ripe and fertile time to redeploy into other high-quality assets.

So my question is, if you can play it safe why not stay in the belly of the yield curve and continue to clip coupons while the equity markets are at an all-time high? Downside, the idea that if the economy does faulter the Fed is not afraid to cut interest rates aggressively and bring negative correlation back, meaning taking on more duration risk and not getting paid too. Is this the time to diversify into real estate to create a more robust hedged portfolio? I see a good argument for this as downside protection.



A good method to watch the yield curve's trend is the spread between 3-month Treasuries and 10-year Treasuries. In 2024, the negative interest rate spread narrowed (see chart below). However, in recent months, yields on 10-year Treasuries dropped faster than those of 3-month Treasuries. As a result, the negative yield spread (favoring 3-month T-Bills) held relatively steady despite the changing interest rate environment.



Front month real estate data for Palm Beach County: Single-Family Homes

Closed Sales: 1,113
Median Sale Price: $617,000
Active Inventory: 5,257
New Listings: 1,597
New Pending Sales: 1,102

Quote of the week ***"Bread's a staple of life, yet beer is life itself."*** - Ted Kennedy

Frank Frederick Herz is apart of the Keller Williams Luxury Group. He provides experienced financial real estate insights in residential, commercial and absentee owner investment properties. Frank's primary focus is residential real estate valuations. Prior to KW, Frank was director of business development for Genlith, a venture holding company. Before that he was co-portfolio manager at Fortuna Capital Partners implementing strategies on Real Estate Investment Trust. Frank started his career at CS First Boston as a financial analyst on the mortgage-backed securities deck, then transitioned to Union Bank of Switzerland/Warburg Dillon Read in Manhattan as an Equity Research Associate working with Real Estate Investment Banking on M&A and Capital Advisory.

Frank received his bachelor degree with a dual concentration in management/marketing from The Wharton School of the University of Pennsylvania. Frank holds a Florida Real Estate License, and has held FINRA Series 7, 63 designation with over 25-years of financial and

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