April 2023 Double Eagle Partners Investor Letter

My dad started out on Wall Street as a Purchase & Sales (P&S) Clerk for Kidder Peabody in 1958 after serving his two years in the U.S. Army. He quickly became a junior trader on the corporate bond desk when bonds were the sleepiest and most boring of all financial markets. As a matter of fact, one of the

reasons that bonds are quoted in eighths (1/8th) of a percentage point is because that is all the price ever moved in a single week back then! Interest rates in the late 50's and early 60's were approximately 4% for many many years until the hangover from the post-war building boom of the 1950's and the cost of the Vietnam War in the 1960's started to weigh on the economy. The ensuing inflation and interest rate increases, coupled with the oil shocks of the 1970's and stagflation became the new normal. Knowing how to profitably trade bonds in this environment became a very valuable skillset for my father.

I once asked my dad how he was able to afford to send his four sons to college in the 1980's after that period of inflation devastated the U.S. economy. He explained that the legendary Fed Chairman Paul Volker had the wherewithal to extinguish inflation by raising interest rates to unprecedented levels in the late 1970's. [side note: I had the privilege to meet Paul Volcker at a cocktail party during the 2014 International Monetary Fund's annual meeting in DC.]

My father then pulled up a chart of long-term U.S. Treasury interest rates that looked something like this;

[Source: Macrotrends]

After Volker tamed inflation during my dad's hay-day on Wall Street, bond traders became "Masters of the Universe" and made a lot of money! As an understanding of how the bond markets work, as interest rates then began to fall, bond prices went up and up for years on end. The sleepy version of a bond trader that the character Nick Carraway portrayed in The Great Gatsby was gone forever. This was also the case for my entire 35-year career as a bond trader on Wall Street as bond prices continually went up as rates fell to historic levels approaching zero! (okay, maybe I was not part of the "Master of the Universe" crowd, but we had a lot of fun while not making quite as much money trading bonds!)

All of that has changed since COVID in 2020. The excessive fiscal policies enacted to prevent an unknown economic disaster caused by the COVID lockdowns and "free money" stimulus checks have let the genie out of the bottle, a genie created by 40 years of uncontrolled government deficit spending. As interest rates declined, the Government borrowed more and more money to feed its spending habits. As the chart above shows, interest rates will never again be what we have become accustomed to over the last 40 years. We all knew that 0.1% savings account rates and sub 3% thirty-year mortgage rates made no sense as the "new normal", and that the NASDAQ cannot possibly go up 30% *every* year. But I believe that an increase in rates is actually not a bad thing at all. A properly working economy needs normal, steady, and predictable interest rates that properly price the cost of capital for free-market capitalism to work its magic.

And that is why I am so encouraged about the investing opportunities ahead of us in the markets and could not be more excited about having you as a partner with Double Eagle! We'll finally have bonds to invest in that generate decent interest and stocks that must pay dividends in line with the real cost of capital, not competing against zero percent interest rates. It's back to the future!