

In August the market continued to move higher. Investors and analysts have high expectations that the Federal Reserve Board will cut interest rates at the September policy meeting. The Iron Bay Fund returned +10.74% bringing the year-to-date performance to +10.62%, versus the Nasdaq Bank Index return of +8.08%, and +5.40% respectively.

Chair Powells's commentary from Jackson Hole in August leaned dovish. The labor market has clearly signaled we are seeing signs of deceleration. "Hiring not firing" is the dominant theme. We believe the Fed will need to react more quickly to the jobs market even as inflation continues to show up in consumer pricing. Overall, assets in all asset classes participated in the sustained rally.

The market reaction to the Fed's dovish comments took the financial markets higher. The Chairman however reluctant, pivoted his position when he highlighted the slowing of both supply, and demand for workers. He added, "This unusual situation suggests that downside risks to employment are rising. And if those risks materialize, they can do so quickly in the form of sharply higher layoffs and rising unemployment". Powell for now has acknowledged that the inflation battle has turned in the other direction. The small and mid-cap spaces will be the real beneficiaries of further easing.

Treasuries rallied across the curve. The treasury rally comes on the belief that Powell is ready to act because of an expected slowdown in the economy. Some would say that it's hard to argue there isn't enough liquidity in the system that necessitates rate cuts; but considering the frozen cycle in housing and the rising national debt, one can make a reasonable case for a few cuts over the next few quarters.

Year to date there have been 117 whole bank deals at an average price to tangible book value of 1.47x. We are encouraged by the increase in actual deal flow and the discussions that are on the rise between buyers and sellers.

If you would like to learn more about our outlook into the year end, please contact us. Thank you for your interest in the Iron Bay Fund.