Ropes Wealth Reflects on Mutuality & Risks Ahead

I write this note from a vacation with my three sons in our nation's capital. During our travels, we visited the remarkably moving Dr. Martin Luther King, Jr. Memorial in the West Potomac Park next to the National Mall. For those who have not seen it, the centerpiece of the memorial is a 30-foot statue of Dr. King, featuring his likeness carved into the Stone of Hope, which emerges powerfully from two large boulders, known as the Mountain of Despair. Together, they represent soul-stirring words from Dr. King's "I Have a Dream" speech: "Out of the mountain of despair, a stone of hope."

Around the perimeter of that statue are other quotations from Dr. King. One in particular stood out to me, which he wrote from a Birmingham, Alabama jail cell after he was imprisoned on April 12, 1963 for participation in a nonviolent civil rights protest.

"Injustice anywhere is a threat to justice everywhere. We are caught in an inescapable network of mutuality, tied in a single garment of destiny. Whatever affects one directly affects all indirectly."

There is so much truth in those words and that recognition of the interconnectedness of humanity. Though Dr. King's focus was on human rights, these words are relevant also in consideration of the pandemic and the resulting economic impacts of broken supply chains, inflation, and possible global recession. As we digest economic data, earnings reports, and tidbits from the Fed, we furiously strive to identify the directionality of our future course and invest accordingly. Imagine the possibilities if the world worked together to push that course forward toward collective prosperity!

For now, though, we meander along, and in this week's reports we learned that soaring inflation seems to be taking a toll on the consumer. Retail sales had 0% growth between June and July, though excluding food and energy sales did advance by 0.7%. However, four out of the thirteen spending categories posted declines, with gas stations, auto dealers, and general merchandise stores leading the way. Americans did increase their online purchases, as well as spend more money at building materials stores. Sales at restaurants and bars were up only modestly, suggesting that consumer spending towards services may also be softening. Keep in mind that retail sales are not adjusted for inflation, so when considering the surge in prices, real retail sales are flat to lower over the past 15 months. In other words, consumers have been paying more, but purchasing the same or less. Adding to that, household savings are now at their lowest levels since 2008 and credit card debt is at an all-time high, both signs of weakness ahead, especially as consumer confidence remains near historic lows.

Not adding to confidence were reports out this week on the housing market, showing declines in both home sales and home building, though not in prices. According to the National Association of Realtors Chief Economist Lawrence Yun: *"We're witnessing a housing recession in terms of declining home sales and home building," "However, it's not a recession in home prices. Inventory remains tight and prices continue to rise nationally with nearly 40% of homes still commanding the full list price."* With that, sales may soften further as rising prices and elevated mortgage rates continue to push prospective buyers out of the market.

Overseas, economic data has been even more grim, especially from China. Though hopes are growing that as COVID levels abate and lockdowns ease, the worst may be behind them. Less optimistic is the outlook for Europe, as it stares down the coming winter with natural gas prices at 14-year highs and Russian President

Vladimir Putin using food, fuel, and fertilizers as weapons of war against Western democracies who are arming Ukraine and sanctioning Moscow. Meanwhile, the U.S. government announced it will hold trade talks with Taiwan in a sign of support for the island democracy that China claims as its own territory. This prompted Beijing to warn Thursday it would take action if necessary to “safeguard its sovereignty.”

Against this backdrop, markets continue to be tentatively upbeat, no longer apocalyptically bearish as hopes rise that inflation and rising interest rate shocks end in the coming quarters and geopolitics remain a sideshow. It has helped that earnings reports, while weak, haven’t demonstrated the kind of bone-crushing recession outlook that markets were starting to price by mid-June. We continue to invest for you with a focus on balance via diversification and an emphasis on quality among the holdings within your portfolio as we remain cautious on the risks ahead. We bear a healthy respect for the “inescapable network of mutuality” that Dr. King spoke about so many years ago, and plan to navigate the risks of inflation, war, and recession with stakes in leading companies and in those stock and bond market segments best positioned to weather those risks and more.

Thank you for your interest in our investment commentary. If you would like to speak personally with a member of our team at any time, please click **here**.

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