Ropes Wealth Considers the Consumer as Key

As we race toward the holiday season, and take stock of the year that was 2022, investors remain battered and bruised from the steep market downturn and wary of what is to come. The hard truth is that we are not out of the woods yet. Stubbornly elevated inflation may be less imposing, but global recession risk is rising day by day. That shift from inflation risk to recession risk reflects the impact of aggressive monetary tightening by the world's central banks dogmatically fixed on inflation-fighting at the expense of economic growth. Next week, the Fed will meet and while we expect Fed Chair Jay Powell to slow the increase in interest rates from 0.75% to 0.50%, he is likely to continue to convey that interest rates are to remain "higher for longer," posing continued challenges to the economy and investment markets.

Regardless of his message, or the many messages that will emerge from Fed speakers over the weeks to come, we think investors must pivot their focus and thinking toward the economy now. Critical to that outlook is the path of the consumer and how we behave under the shifting circumstances of 2023.

At the moment, the U.S. consumer is resilient, if not downright robust, boosted by low unemployment, 6% wage growth, high household net worth anchored by a primary real estate asset secured by a low fixed-rate mortgage, and unmistakably strong spending habits. But there are some meaningful signs of a slowdown cropping up.

For example, the personal savings rate, once boosted by fiscal stimulus relief, has plummeted from a peak of 33.8% in April 2020 to 2.3% in October 2022—its lowest level since 2005. Credit card revolving debt has surged to an all-time high, at nearly $1.2 trillion.

Meanwhile, businesses are starting to slow their pace of hiring — or reverse course to reduce headcounts — which will, in turn, weaken consumer spending even if income growth once again starts to outpace inflation. To that point, the number of new job listings is declining, as reflected in the Job Openings and Labor Turnover Survey. There were 10.3 million vacancies for October, the latest monthly data available, down by 760,000 from a year ago. The same survey also showed a downtrend in the "quits" level, edging toward 4 million, compared with the record 4.5 million in March 2022. This suggests people are less confident about their prospects for finding employment elsewhere.

Housing market sentiment is at lows we haven't seen since the 1980s. Inventory metrics are moving in the wrong direction, mortgage rates have more than doubled this year, construction is crashing, and affordability is worse. Our only saving grace is that with housing stock so low, consumer balance sheets are relatively bolstered by this net asset, typically financed by a low mortgage rate.

Putting all this together, we believe the consumer—her spending, her employment, and the value of her home--bear the most watching in the weeks ahead as her confidence in that trifecta will determine what is next for the economy.

And as for the markets, a slowing economy is now more or less factored into current stock valuations and earnings expectations. But bear markets driven by policy don't typically end until earnings estimates reach a trough, or the Fed actually starts cutting rates. For this reason, we feel there is still some volatility ahead in equities that must not be dismissed. We continue to advocate for short- and intermediate term bonds and more quality equity holdings as

the safest way to manage through this challenging period. While some market pundits continue to take sides on the growth vs. value or large vs. small debate, we see great opportunity in diversification right now, as there is nothing straightforward in the outlook. Or, better said, perhaps the only straightforward part of the market outlook for 2023 is that it will not reflect a sharp V-shaped recovery. With that hope set aside, we must consider there is now a wider opportunity set of choices at repriced levels. Our goal is to review and reaffirm, or reject and replace, across your holdings in order to prime your portfolios for the intricate backdrop ahead. We thank you for the opportunity to do that for you and will do so with a high focus on the indomitable consumer as in some ways what happens next depends on all of us.

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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