Ropes Wealth Opines on Why Investors Need to Calm Down

I have a lot of football fans in my orbit, at home, at work, and among clients like you. Lately the talk of the town in football has not been deflating footballs or kneeling during the national anthem. It has been the romance of pop superstar Taylor Swift and Kansas City Chiefs star tight end Travis Kelce and how Taylor's legion of fans, aka Swifties, are boosting viewership, ticket sales, and merchandise revenue for the league at a breathtaking pace. It made me laugh out loud then when a clever poster on X (formerly Twitter) quipped, "I wish Taylor Swift was in love with a climate scientist." Or fill-in-the-blank as her object of affection. If only we could channel Swift's exceptional influence, maybe we could have a shot at changing the world that at this moment faces heartbreaking challenges of war, political dysfunction, economic inequality, and vulnerability due to aging demographics and crumbling infrastructure.

Speaking of outsized influence, it was notable that FTX co-founder and crypto mogul Sam Bankman-Fried was found guilty on Thursday on all counts of fraud, conspiracy, and money laundering. He could be sentenced to decades in prison. Bankman-Fried became one of the largest financial fraudsters in history, whose victims suffered nearly $10 billion in losses after FTX misappropriated customer funds to spend lavishly on luxury real estate, investments, and "dark money" political donations, all at his direction, the jury found.

Turning to another influencer in this week's news, Fed Chairman Jay Powell announced the Fed's decision to keep interest rates steady at their current range of 5.25%-5.50% on Wednesday. Markets were relieved by this decision, though the Fed clearly left the door open for additional policy firming should inflation concerns remain, reiterating the language in *"determining the extent of additional policy firming that may be appropriate."*

The Fed acknowledged the recent run of stronger economic data and the increase in longer-term interest rates, which is seen as "likely to weigh on economic activity." The assessment of economic activity in their statement was changed from saying that "activity has been expanding at a solid pace" to saying that "activity expanded at a strong pace in the third quarter." That said, the Fed almost seemed to brush aside the acceleration in job growth, concurrent with an increase in job openings and hotter¬than-expected inflation reports in their language, which highlights their preference to be careful at this point. Nonetheless, they retained their flexibility to hike again, and Powell reiterated several times in the press conference following the decision announcement that the Committee is "committed to achieving a stance of monetary policy that is sufficiently restrictive to bring inflation down to 2% over time. And we're not confident yet that we have achieved such a stance." He also noted that "persistent changes in broader financial conditions can have implications for the path of monetary policy," which implies they are watching the wild moves in interest rates carefully. Bottom line for investors: the Fed is likely close to done with hikes, but current loose financial conditions are supportive of a 'higher for longer scenario.'

This morning, the important October jobs report was released, and showed that hiring slowed sharply in October as employers added 150,000 jobs, signaling that high interest rates and inflation may be taking a widening toll on payroll growth.

The unemployment rate rose from 3.8% to 3.9%, the Labor Department said Friday, the highest level since January 2022. Through the first eight months of the year, job gains slowed to a still solid average pace of about 200,000 per month, though that is half of last year's clip, now that the millions of jobs lost in the pandemic have been recovered. Forecasters expect economic activity, job gains and pay increases to slow more dramatically next year as higher borrowing costs further squeeze households and businesses, and more Americans deplete their

their pandemic-related savings. Nearly half of economists are still predicting a mild recession within the next twelve months.

Rounding out this weekly update, and also on the topic of labor, there is an end to the United Automobile Workers (UAW) strike with General Motors being the last of the Big Three Detroit automakers to reach a deal. If you recall, the walkouts began back in September and involved almost 50k workers, totaling billions in lost production and wages. According to reports, the deal entitles Union members to a *“hefty double-digit pay raise,”* restricts the use of lower-paid temporary workers, and gives workers influence over what plants stay open as the automakers shift to electric vehicles. While a needed win for workers in the industry, the impact of higher priced labor is estimated to increase the cost of each car by up to $900. This victory for the UAW also speaks to the growing theme of higher compensation demands across many other industries, which undoubtedly worries the Fed as they seek to keep inflation expectations anchored around their 2% target.

Finally, it is worth noting that the earnings season continues and is extending a pattern from recent quarters, with most companies outpacing Wall Street's earnings expectations but not faring nearly as well in terms of revenue. Of the roughly three-fourths of S&P 500 companies to have reported earnings so far this season, 81% have topped the average profit estimate, though just 48% have posted revenue beats. Tempered management outlooks for the current quarter and coming year are a red flag, tempering the enthusiasm for market bulls on what comes next. We see that caution as warranted, though are emphasizing in our conversations with you that most of the market has not materially improved since last year’s bear market contraction and so there is a reasonable cushion in the prices of many stocks in this market. For this reason, stocks may not need a Taylor Swift romance to recover, but just some patience and fortitude which are the hallmarks of a long-term investor. And while we wait for that recovery, investors for the first time in over a decade are being compensated on their cash and safety assets, helping to solidify the return profile for clients with asset allocations balanced between stocks and bonds. This type of diversification means we all have to do less swinging for the fences than was required over the last decade, when many investors felt compelled to over allocate to stocks to grow their portfolio. In the words of Taylor, we need to try to “shake it off” when fears and risk converge and stick to your plan.

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