Ropes Wealth Recaps Cooling Inflation and A Market Counting Its Chickens

One of the best parts about the holidays is the stack of mail that comes at this time of year. I am not talking about catalogues and coupons, but rather the pile of holiday greeting cards from family and friends old and new. We get to see how children have grown, and read about trips taken, as well as weddings, graduations, babies, new homes, special birthdays, and even life after loss. This is the essence of life—our human relationships with each other. What does this have to do with your investment and financial planning? A lot, as it turns out, because so much of our work together is understanding your goals and hopes for yourself and for those you love. As you sort through your stack of holiday cards, and celebrate with your loved ones in the days ahead, we hope you consider what you want on your card next year: what trip you want to take, a new home you aspire to, a child or grandchild you want to help achieve their educational goals, or even more simply a feeling of strength and calm that comes from having your financial affairs in order.

In this week’s news, equities continue to rally pushing to new all-time highs, and the 10-year Treasury bond is now trading below 4%. Despite Fed officials warning the market is “getting ahead of itself” and misinterpreting Chair Powell’s notion that the Committee was opening up the conversation to include rate cuts longer term, investors are convinced the U.S. central bank is pivoting away from a higher for longer stance, potentially reducing policy restrictions as early as March.

“We aren’t really talking about rate cuts,” New York Fed President John Williams said during an interview with CNBC on Friday. He went on to add that any talk of a rate cut, particularly as early as March was *“premature”* to say the least given the current state of inflation.

Federal Reserve Bank of Chicago President Austan Goolsbee also weighed in on a premature move by the Fed to lessen rates ahead of achieving price stability. *“We’ve made a lot of progress in 2023, but I still caution everyone, it’s not done.”* We haven’t yet reached our 2% inflation target, Goolsbee said last Sunday in an interview on CBS’s Face the Nation. *“Until we’re convinced that we’re on path to that, it’s an overstatement to be counting the chickens.”*

And yet we could be close to cracking some eggs as inflation does seem to be on a sustainable decline. To that point, this morning the Fed's preferred PCE metric showed inflation pressures cooled more than expected in November after October gains that were softer than previously estimated. Headline prices declined 0.1% unexpectedly, the first outright price drop since April 2020, and were only 2.6% higher than a year ago, the slowest annual increase in 33 months. On an annual basis, core PCE inflation eased from 3.4% to 3.2%, the smallest year-over-¬year increase since March 2021. Core inflation excluding housing notched one of its softest readings since becoming a focus for the Fed and more in line with pre-pandemic levels. This softer inflation data will likely strengthen market speculation that the Fed will begin easing policy in the first half of next year. Annualizing the three-month average rates, headline inflation would fall below the Fed's 2% target in February and core PCE inflation would reach the 2% level in May.

In other economic news, GDP was revised lower from a 5.2% gain to a 4.9% increase on an annualized basis in the final Q3 report, still marking the fastest quarterly pace since Q4 2021. Initial jobless claims rose 2k from 203k to 205k in the week ending December 16. Continuing claims, or the total number of Americans claiming ongoing unemployment, declined slightly from 1.866M to 1.865M in the week ending December 9. Personal income rose another 0.4% month-over-month in November on a 0.6% gain in employment income, matching the strongest growth since January. The November increase kept the year-over-year rate of income growth high at 4.6%. Lastly, durable goods orders for November showed headline orders up 5.4% versus expectations for a 2.3% gain on core strength and an 80% increase in nondefense aircraft orders. The week ahead will be light for further data, as we close the books on 2023.

The year's economic outcomes have surpassed expectations: strong growth, historically low unemployment, and falling inflation. We have learned to live with COVID-19, supply chains have healed, and wages are rising. But reasons for gloom aren't hard to find. While prices have stopped rising at the breakneck pace of 2022, most have not declined, either. Everything feels expensive relative to a pre-pandemic anchor; today's costs do not yet feel normal. Fiscal stress is unlikely to recede; the United States could still experience a government shutdown early in the new year, and we have elections next year that will cover more than 40% of the world's population. And let's not forget two wars remain underway. The twists and turns that may be on the horizon will require us to keep our seatbelts fastened but also maintain perspective by focusing on your goals and letting those set the tone and the strategy for your investment plan. That approach is the timeless failsafe to good investment outcomes and joyful holiday cards.

The entire Ropes Wealth Advisors team wishes you and yours a wonderful holiday. Thank you for your interest in our investment commentary and for your relationship with us. If you would like to speak personally with a member of our team at any time, please click **here.**

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