Ropes Wealth Considers FedSpeak and Stunning Jobs Report

Will they or won't they? Stop raising interest rates, that is. That is the question on the market's mind as it hopes against hope for a respite from the Fed's torrid pace of interest rate hikes and sign the end may be near.

Not so fast, we heard this week from the Committee, who appeared to be on a publicity tour to jawbone away the idea that they had any inkling of slowing or stopping.

Chicago Fed President Charles Evans warned rates may need to move higher if improvement in inflation is not realized in the near term: *"If we don't see improvement before too long, we might have to rethink the path a little bit higher. We want to see if the real side effects are going to start coming back in line... or if we have a lot more ahead of us."*

Speaking in an interview with CNBC, St. Louis Fed President James Bullard said sternly: *"We still have some ways to go here to get to restrictive monetary policy…I've argued now with the hotter inflation numbers in the spring, we should get to 3.75% to 4% this year. Exactly whether you want to do that at a particular meeting or some other meeting is a great question. I've liked front-loading. I think it enhances our inflation-fighting credentials."*

Minneapolis Fed President Neel Kashkari summed it up as: *"We are laser-focused on getting inflation down, and whether we are technically in a recession right now or not, doesn't change my analysis. I'm focused on inflation."*

This morning we learned that nonfarm payrolls rose a stunning 528k, surpassing the 250k gain expected. June payrolls, meanwhile, were revised up from a 372k rise to a 398k increase, and May payrolls were revised slightly higher from a 384k gain to a 386k rise. Thus, the overall change in nonfarm payrolls (July data + net revisions) was 556k. Job growth was widespread across industries, led by gains in health care, leisure/hospitality and professional/business services. Overall nonfarm employment has increased by 22 million since hitting a low in April 2020 and has now returned to its pre-pandemic level.

The unemployment rate ticked down from 3.6% to 3.5% in July, the lowest since February 2020. Average hourly earnings climbed 5.2%, down from a recent peak of 5.6% in March, though still well short after adjusting for elevated inflation.

At this point, the labor market has been the welcomed source of strength in an otherwise softening domestic economy. Despite two consecutive quarters of negative GDP, the strength of the labor market continues to remind us why it may be too early to call this the end of the expansion. But that time may be fast approaching. Consider how this week Walmart was the latest in a slew of companies to announce sizable layoffs as the business is set to *"reorganize"* in today's challenging and slowing environment. The firm plans to lay off hundreds of corporate employees at divisions related to merchandising, global technology, and real estate.

Even so, this strong jobs report bolsters the case for the Fed that the U.S. is not facing an imminent recession and will likely embolden them to hike by 75 basis points at the upcoming September FOMC meeting. Against this complicated backdrop, asset prices continue to swing, and investors are rightly pondering what is the best next move for their portfolios. We want to reiterate the importance of having your cash needs partitioned, and not indulging a desire to amplify or dramatically reduce risk. Your plan was built for times like this, and the opportunity at this time lies in smart rotation to different funds or stocks in select areas within your allocation. This is an opportunity which we are actively executing on your behalf, with an emphasis on quality and durability and mispriced valuations. As we look toward the second half, we are optimistic more discernment will occur between the strong and the weak in the investment landscape, and we strive to position you for resilience as the best way to ensure your plan achieves its goals.

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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