Ropes Wealth Reviews Rollercoaster UK Moves as Markets Reset

The global selloff in stocks deepened this week, as markets focused on some misguided moves by new British Prime Minister Liz Truss after she announced the largest tax cuts since 1972 for her people. The concern being that this adds to an already bloated national debt at a time when inflation clocked in at 10% and growth prospects are shaky at best. This announcement came on the heels of the Bank of England (BoE) raising rates but not aggressively enough to quell inflation fears. As a result of these policy missteps, UK government bonds, or gilts as they are called, crashed, forcing the BoE to pledge to buy long-dated gilts in order to restore order to the UK currency and bond markets. While the British pound and gilt markets have stabilized for now, it was a worrying sign of the underlying fragility of global markets to the current stresses and a sign that credibility in the fight against inflation is everything right now.

For this reason, the “good” news of better consumption in the second quarter U.S. GDP report was taken as a worrying, not a welcome, sign that the economy might still be running too hot. The same was true of the weekly jobless claims reports which showed labor market resilience despite growing fears of recession. In the wake of that announcement, however, came widespread reports of job cuts at Meta, Softbank, and even the big Wall Street banks. Then Apple added to market fears after slashing its new iPhone production plans, causing a ripple effect for companies throughout their supply chain. Finally, Hurricane Ian made landfall in Florida, causing immense destruction and significant loss of life, even as the storm is now bearing down on South Carolina.

The market action of September has been destructive in ways that are shaking investors to their core. It is hard to not feel discouraged and to not want to abandon your goals and plans to have the relief of being out of the treacherous daily action. While past performance is not indicative of future results, the median of all market declines of 20% or more is 26% -- meaning much of the damage may be done at this point. And, when looking forward from these low points over the last 75 years, stocks are higher a year later, and almost always three years later, with a stunning 15% averaged annualized return over that period of decline and recovery.

Of course, we can think of examples when stocks declined more than 26%, including the Great Financial Crisis of 2008, and recovery took longer and was more muted than the average. To be sure, this time there is no cavalry in the form of the Federal Reserve or federal government to ride in and save the day with stimulus spending that works to lift markets and encourage so-called animal spirits. For these reasons, investors must brace themselves for more volatility but also recognize that we are slogging through the worst of our fears now in these miserable markets. As time marches forward so too will investor understanding, acceptance, and calibration of risks to more accurately price and position for them.

A year that started with hope of a post-pandemic world, of a return to work, school, and play, has devolved into a year of challenges of an ever-evolving virus, a war, climate catastrophes, and now a stock market collapse. While it was expected to be a reset year, it has been a reset that did not return us to growth and stability but instead to persistent inflation and rising interest rates that the market was just not prepared to absorb. As we look toward the end of 2022 and into 2023, we want to be honest that the echo of this reset may reverberate and reemphasize there is no cavalry this time around. However, while it may seem hard to accept at this moment, volatility is the oxygen of good stock pickers, and there is plenty of oxygen out there for them now. Likewise, we are chewing through the excesses of speculation, drying up SPAC issuance, crashing back down to earth meme stocks, and wiping out the crypto enthusiasts. Discipline and price matter again, and those are and always have been prioritized in your portfolio construction and holdings of funds and securities. Current signs of market stress warrant close monitoring, but we believe they are not enough for us to lose conviction in your plan. However, now is the time to remain close to your Ropes Wealth team and discuss any changes or updates to your cash flow needs and financial goals. It is a time to ask questions and re-underwrite your allocation, making tweaks as necessary, so you can withstand the day-to-day price moves with the knowledge that your plan remains on solid ground for the next three, five and ten years despite the risks we face.

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**.

Ropes Wealth Advisors LLC
800 Boylston Street Boston, MA 02199-3600