
***Ropes Wealth Reviews GDP & Advice from The Great One***

The big economic news this week was a first look at fourth quarter U.S. GDP, which surprised to the upside, showing 2.9% annualized growth, surpassing the 2.6% expected increase. While GDP was down from the 3.2% print recorded in Q3, it was a welcome reminder of the economy's, and more specifically, the consumer's resilience in the second half of the year.

In the details, personal consumption rose 2.1% in Q4, down only modestly from a 2.3% gain in Q3. Goods and services consumption also increased, but fixed and residential investment plunged. With this erosion within business investment and housing, one has to wonder how long the consumer can hold up as fiscal stimulus fades, savings are drawn down, and real income growth remains negative. Especially considering this positive GDP growth print coupled with a solid labor market should embolden the Fed to continue along the pathway to higher rates at their upcoming February meeting.

With these risks in mind, it was unsurprising that the Conference Board reported another sharp plunge in the Leading Economic Index (LEI), which has now been in a rapid descent over the past 10 months. Notably, this week's reading of the index was at a level only seen historically during recessions that were already underway.

Even so, investors continue to struggle with the notion of a recession, which shows in the overall strong market bounce we are experiencing to start this year. After the steep plunges across markets in 2022, we were due for some measure of a rebound and for now it appears freefall is over. This is welcome as the earnings season hasn't been especially rosy. While earnings declines have been in line or modestly less than expected, corporate outlooks are downright gloomy. Microsoft, Boeing, AT&T, 3M, and Intel all had nothing good to say, and large layoff announcements from the likes of Goldman Sachs, Microsoft, and Google are concerning. Only Tesla bucked the trend this week, reporting strong Q4 earnings and the news that orders are running at twice their rate of production.

It can be a bit of a head-scratcher to see stock markets rebound even as job losses accelerate, large bellwether and well-managed companies admit to challenges, and economic data signals are flashing red. We urge you to remember that like the Great One (aka hockey legend Wayne Gretzky), markets skate where the puck is going, not where it has been. It is not that weak economic data or troubling earnings reports do not matter, but rather that the challenges they present have been priced into markets at current trading levels. Therefore, it is reasonable that we are experiencing a bit of a bounce, as in some cases economic data and corporate earnings are not as bad as imagined. Even so, we are staying vigilant as the sinister impacts of rising interest rates can take some time to transmit and the consumer may be running out of steam. We have some tailwinds to be sure—a reopening China, lower gas prices, the potential for the Fed to slow or even stop rate hikes in the near future—but we also have yet to feel the full impact of the Fed's handiwork as pandemic pent-up demand and lingering fiscal stimulus masked some of the pain we are now coming up against. For this reason, we remain dedicated as ever to balance in your allocation, especially with bond yields so beautifully productive in this new rate environment. Diversification is also showing its benefits, with a declining dollar providing a tailwind to overseas equities as well as lower overall valuations in the context of a market still tentative and seeking the benefits of a price cushion. We are thrilled to see portfolios notching back gains in the aftermath of 2022 and are looking forward to bringing to bear the kind of stick handling that is required to navigate to your goals. The Great One was also noted for saying that you miss 100% of the shots you don’t take, which may be another way of saying stay invested and confident in your plan.

Thank you as always 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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