Ropes Wealth Considers the Fed and Our Future

Against the backdrop of a global banking crisis, the Fed opted to continue along the pathway to higher interest rates this week, raising the Fed Funds target rate an additional 25 basis points from 4.75% to 5.00%. In its assessment of the economy, the Fed was positive, noting modest growth, a low unemployment rate, and a pick-up in job gains. On the inflation front, the Fed noted price pressures remain elevated, and made a point to say the Committee is "*highly attentive to inflation risks*" given the still stubborn data reflecting elevated price pressures, most notably in wages and rent. As for the banking crisis, the Fed's statement acknowledged that "*recent developments*" are likely to result in tighter credit conditions and will "*weigh*" on economic activity, hiring, and of course, inflation, although the "*extent of these effects is uncertain.*" Nonetheless, the Fed vowed, "*the U.S. banking system is sound and resilient*" and made clear it will not be distracted or deterred from its primary goal of reinstating price stability. As Powell reminded us during his press conference comments, the economy does not work for anyone without price stability.

The Fed is isolated in their confidence about the banking system right now, as uneasiness reigns and dollars continue to flow out of regional and mid-sized banks in the U.S., and even large European banks, to the tune of $1 trillion in the last few weeks according to Reuters. Notably, Fed Chair Jay Powell's press conference was unfortunately timed with Treasury Secretary Janet Yellen's testimony to Congress about the banking system. She dashed investor confidence with the statement that the government "*is not considering insuring all uninsured bank deposits,*" something many believe would go a long way to preventing further crises, even if only for a temporary period. Despite her emphasis on how the Treasury and the Fed have important tools they "*could use again for an institution of any size if we judged its failure would pose systemic risk,*" markets and depositors are looking for something more and remain jittery as a result. It isn't helping that we seemingly wake up every morning to news of another bank in distress. This morning, it was Deutsche Bank in the crosshairs, as fears spread in the wake of the past weekend's hastily arranged marriage of distressed Credit Suisse with UBS, and given Deutsche's own troubled history.

Fed meetings and banking stress aside, this week was also marred by a visit from Chinese President Xi Jinping to Russia that stressed a new world order under their leadership and made no progress on pushing Russian President Vladimir Putin to end the war in Ukraine. A Trump indictment was rumored but never materialized, and TikTok CEO Shou Zi Chew's testimony on Capitol Hill only seemed to reinforce the risks of Chinese interference in data access and security for the popular social media app. On the economic data front, it was a quiet week though a report on existing and new home sales showed a rebound in sales and activity. Existing home sales rose 14.5% to a pace of 4.58 million, while new home sales rebounded by 1.1% to a 640,000 pace. As fear has gripped the bond market and caused yields to plunge despite the Fed raising interest rates, a welcome offshoot has been a major decline in mortgage lending rates. The 30-year mortgage rate is now trending at 6.42%, down from over 7% just a few weeks ago.

As we take in these developments, and discuss the market outlook for the future, it is natural to be concerned markets could make another meaningful move lower given such uncertainty. We share that concern, but also temper some of that sentiment with a gentle reminder that markets are already priced meaningfully lower from the 2021 peaks after last year's dismal price action. Nevertheless, we see the short-term risks and believe a cash cushion, an allocation to short-term U.S. Treasury bills and notes, and a focus on quality within and among your stock and fund holdings are the best strategy for most clients during these tumultuous times. We also heed caution about a swerve too far away from your long-term investment plan, given the tax cost often in play to make such

changes. Remembering also the potential for markets to swerve meaningfully higher with the reality that interest rate increases are closer to the end than the beginning, and the recession we are all worried about might be milder and shorter than expected given dynamics like a resilient labor and housing market, and robust consumer and corporate balance sheets (notwithstanding the banks). Markets are forward-looking, and price to where we are going, not where we have been. If we consider the outlook twelve to eighteen months from now, when interest rates are stable and maybe even lower, the banking crisis has passed, and recession risks have subsided, there is the potential for markets to be meaningfully higher than current trading levels. For this reason, your investment plan is meant to endure through economic cycles, with adjustments made along the way to factor in short-term risks and opportunities. Timing business cycle changes is a tricky business, and one that often leads to heartache. Besides ensuring liquidity and enough cushion to endure through volatility, good stewardship also means maintaining enough market exposure to benefit from the upside of the business cycle as much as to protect from the downside.

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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