Ropes Wealth Remembers Our Vets and Reviews Our Debts

In 1863 and in the middle of the Civil War, President Abraham Lincoln commemorated a new National Cemetery at Gettsyburg with these words: "*….that from these honored dead we take increased devotion to that cause for which they gave the last full measure of devotion -- that we here highly resolve that these dead shall not have died in vain -- that this nation, under God, shall have a new birth of freedom -- and that government of the people, by the people, for the people, shall not perish from the earth.*"

With great gratitude to our veterans and families of veterans, including my own, we honor you and remember your sacrifice.

It feels remarkable that even as we honor and remember, we stand in disbelief that the debt ceiling debacle continues in Washington without resolution and with the countdown on for default. At press time, Republican and White House negotiators revealed they are moving closer to an agreement to raise the debt limit and cap federal spending for two years. According to the limited details available, the deal would call for defense spending to rise 3% in line with the President's budget and all plans for an upgrade to the nation's electric grid to accommodate renewable energy would continue. In concessions to the GOP, permits for pipelines and other fossil fuel projects would be fast tracked and the IRS would get $10 billion less for agents and audits. The hope is that a bill could be passed on Tuesday and signed by the President before June 1.

Stock markets have been confident of this moment, even if bond markets have not. Yields on short-dated U.S. Treasuries have surged and then recovered and then reverted back again over the course of the week as odds of a resolution have ebbed and flowed. Notably on Thursday, the credit rating agency Fitch put the U.S. credit mark on rating watch negative. Fitch stated that while it "still expects a resolution to the debt limit before the x-date, the brinkmanship over the debt ceiling, failure of the U.S. authorities to meaningfully tackle medium-term fiscal challenges that will lead to rising budget deficits and a growing debt burden signal downside risks to U.S. creditworthiness." Practically speaking, the government has the ability to pay eventually (remember, they have unlimited taxing authority) so we do not recommend panic selling. The odds are still very low that the Treasury is unable to make all payments and even lower that the Treasury fails to make timely debt service payments given some of the maneuvers that could be made (prioritizing more payments, 14th amendment, etc.).

In economic news, new home sales rose 4.1% in April to 683k annualized units, topping estimates. A dearth of existing home inventory, largely the result of current mortgage rates nearly 300 basis points in excess of the average homeowner's current rate, has helped buoy new home sales. The median new home sale price fell from $456k to $421k in April, the cheapest since December 2021. The 8.2% decline in the median sales price marked the first annual drop since August 2020.

Less positive were the preliminary S&P Global activity indices highlighting the divergence between a resilient U.S. services sector and further deterioration in manufacturing. For what it is worth, first quarter GDP was revised from 1.1% to 1.3% thanks to a larger inventory build. Finally, the Fed's key inflation gauge, the PCE Deflator, ticked up to 4.4% in April. The core measure, which excludes the volatile food and energy segments was also up slightly to 4.7%. This is approximately the same level we have seen for the last six months now and seems to indicate that progress towards their 2% target may have stalled.

Of course, for investors, what matters at the end of the day is less about debt ceilings and economic data disappointments than the earnings reports of companies. As such, the news that bellwether advanced chip company Nvidia's sales would top $11 billion in the next quarter caused its shares and those of the entire technology and communication services sector to surge. Nvidia is a beneficiary of the artificial intelligence feeding frenzy in stocks right now as investors seek to benefit by investing in a new era of spending on the technology that underpins AI. But lest you think this piece is written by ChatGPT, let me assure you that we are excited, too, but appropriately cautious to maintain discipline in your allocation and approach. Keeping cash needed in the short-term aside remains critical, as well as keeping an eye on valuations when staring down the barrel of inflation, rising rates, a mild recession, and election year politicking. That said, remember that many stocks lost 20% or more of their value last year in a massive reset of market pricing, and some of these risks drove that reset. Stay firm in your allocation, especially when it is tucked in longer-term pockets like retirement savings, generational trusts, or within accounts where those stocks are balanced out by bonds and cash. It is also easier to have conviction when at least a portion of your equities are selected actively and with a bias toward quality and enduring businesses, in complement to market index exposure.

In the immortal lyrics of the Queen of Rock n' Roll, "We don't need another hero/We don't need to know the way home/All we want is life beyond Thunderdome." If our post-COVID world seems to have shades of the post-apocalyptic Thunderdome, let it be that our struggles with inflation, debt ceilings, civil unrest, and war one day yield a new and better civilization that recalls the best of our past. RIP Tina Turner.

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.** Enjoy your Memorial Day weekend!

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