Ropes Wealth Sees Markets as Fed Up with the Fed

"Honor to the soldier and sailor everywhere, who bravely bears his country's cause. Honor, also, to the citizen who cares for his brother in the field and serves, as he best can, the same cause."

—Abraham Lincoln

Thank you for your service to all the veterans among my readers.

On Sunday, my oldest son leaves on his high school class trip to Washington, D.C. He will visit the many national monuments and museums and the Capitol. We parents are nervously joking our kids will be just in time to see a government shutdown, looming on November 17. U.S. Senate Majority Leader Chuck Schumer on Thursday took a procedural step to allow the Democratic-majority chamber to pass a stopgap government funding bill, a bill that requires House approval. For their part, House Republicans closed out the week by canceling votes on two party-line funding bills in the span of 48 hours, a setback for new Speaker Mike Johnson and a sign of persistent dysfunction in the chamber. So much for our youth seeing the government in action.

But impending shutdowns were the least of the market's worries this week after the November rally in equity prices came to a screeching halt thanks to hawkish comments by key Federal Reserve officials. *"It would be unwise to suggest that further rate hikes are off the table,"* interim St. Louis Fed President Kathleen O'Neill Paese said at an event in Indiana. *"There is considerable economic uncertainty at the present time. There are reasons inflation could surprise to the upside."* Speaking at an International Monetary Fund conference in Washington, D.C., on Thursday afternoon, Federal Reserve Chairman Jay Powell said the Fed was still *"not confident"* its monetary policy had become restrictive enough to bring inflation down to the central bank's 2% long-term target. *"Inflation has given us a few head fakes," Powell said. "If it becomes appropriate to tighten policy further, we will not hesitate to do so."*

Powell's tone was notably more hawkish than it has been in other recent appearances, including after last week's FOMC meeting. Investors had grown fairly confident that the Fed was unlikely to take interest rates any higher. Now they are not so sure and are understandably frustrated. We live in challenging times, without direction on the true course of interest rates and living with the risks of war, inflation, and the aftermath of financial repression.

Despite the confusing commentary, we agree with the view that the Fed is unlikely to hike the federal funds rate again in this cycle given the progress made toward its goals. However, we believe the market may be a bit too optimistic about the timing and pace of rate cuts in 2024. In short, we don't see cuts as probable. It's worth noting that the Fed still plans to reduce its balance sheet by allowing the bonds it holds to mature—a form of tightening. Consequently, monetary policy will still be exerting a negative influence on the economy into the future, likely keeping inflation in check enough to avoid further rate hikes.

It is also true that the Fed has historically preferred to be on the sidelines in an election year, and we have a doozy of an election ahead of us. Absent a rate hike or cut, the prevailing catalyst for stocks should be earnings, and there could be room for optimism there. Outside of a handful of technology stocks, most companies are trading at or barely above 2022 market lows. Many companies are reporting meaningful cost cutting, and a bottoming of revenue declines. Of course, that could change, if the consumer falters, credit conditions tighten sharply, or geopolitical risk rears its ugly head.

As we head into the remaining weeks of 2023, we look forward to connecting with you to review and address your most timely planning items to ensure you are poised for success in 2024. Charitable gifts, required minimum distributions, liquidity planning, and tax loss harvesting are all key agenda items, as well as confirming your investment plan is well proportioned to your 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.**

Also please click **here** for a timely piece on the Massachusetts Charitable Contribution Deduction.

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