



Ropes Wealth Contemplates Recession

Last evening, my 10-year son was sitting next to me on the sofa, playing contentedly on his iPad, after a shower had washed away the grime of the day's camp and that evening's street hockey and restored him to my clean and sweet-smelling child.

"What's a recession?" He had seen me typing this word repeatedly as I logged back into my computer to continue my day's work. I shifted uncomfortably next to him for a minute or two, trying to frame my answer in a way he could understand.

"Well, it's when things slow down a lot, and people don't have as much money for the things they want to do or that they need. Sometimes people lose their jobs. People are forced to make tough choices because of money. It is a really sad time, and there's a lot of worry."

He looked at me and then, as kids do, asked that one question that is both impossible to answer and simultaneously cuts right through your heart: *"Is it worse than a pandemic?"*

It could be. Let me clarify that I do not mean to imply the life-or-death tragedies we faced and continue to face due to the COVID-19 pandemic are the same as the impacts of recession. However, an economic downturn can have devastating effects in their own ways that are tragic and long-lasting.

It is all the more painful in that 2022 was supposed to be the year we broke free of pandemics and pandemic-induced recessions. Unemployment had declined sharply, wages were rising, and savings had accumulated in our pockets. Vaccinated and boosted, we were primed as a society to return to normal and then some.

Instead, the pandemic continues to circulate, a Russia-Ukraine war has amplified inflation challenges, central banks are rushing to raise interest rates to cool things down, financial markets are in turmoil, and now the consumer is cracking under the pressure. Data points this week showed consumer spending, which accounts for more than two-thirds of U.S. economic activity, gained just 0.2% in May, the smallest increase in five months. Data for April was revised down to show outlays increasing 0.6% instead of 0.9% as previously reported. Figures going back to January were also revised downward, showing a softer growth profile for spending this year.

Spending on goods meant to last three years or more declined -3.2%, pulled down by motor vehicles. Purchases of furnishings and durable household equipment also decreased, as did recreational goods and vehicles. That partially offset a 0.7% increase in services, which was driven by housing and utilities as well as healthcare and international travel.

The report joined data on housing starts, building permits, and manufacturing production in suggesting that the economy is struggling to gain altitude after gross domestic product dropped at an annualized -1.6% rate in the first quarter.

And while the Fed's preferred measure of inflation, the PCE, rose slightly less than expected in May, it is still showing a 6.3% year-over-year increase, while core inflation that excludes food and energy was up 4.7%.

This all underscores the growing question we face around the future, exemplified by the ongoing drops in confidence measures. To that point, this week the Conference Board's Consumer Confidence Index dropped from 103.2 to a reading of 98.7 in June, and future expectations dropped to 66.4 from 73.7 in June, the lowest level in nearly a decade.

However, after closing the books on the biggest first-half drop in the S&P 500 in over 50 years, we must ask how much of these risks are fully priced into the markets and where do we go from here. Panic is not an investment strategy, and neither is excessive risk-taking. The best way forward is to stay close to your investment plan and make appropriate adjustments to reflect liquidity needs, harvest tax losses if appropriate, and focus on quality and resiliency among each line item of your holdings. As I comforted my 10-year-old son before hugging him and sending him off to bed, I reminded him these are challenges our world has faced before, and we will come out the other side together.

Thank you for your interest in our investment commentary. We wish you and your families and friends a wonderful and safe 4th of July.

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