ROPES WEALTH ADVISORS

Ropes Wealth Discusses Pivots and Politics

After a 25% drop in stocks this year through the end of the third quarter, some very modest optimism has filtered into these early days of October trading. Markets clawed back some losses in another wild week as some on Wall Street called for a “bottom” in the equity market. Their optimism, however, hinges on the idea of a material adjustment from the Fed, potentially taking a more dovish or at least a less hawkish position. They argue the Fed may perhaps follow in the steps of the Reserve Bank of Australia who slowed rate hikes this week or the Bank of England, which moved to a less aggressive stance to stabilize markets last week with a reintroduction of quantitative easing. Other analysis points to emerging weakness in the U.S. economy as a potential justification for a change in tone.

Somebody needs to update the jawboning members of the Fed about this concept. Indeed, there was little suggestion of any pivot in their stance in this week’s rhetoric as Fed Governors Daly, Cook, Waller, Kashkari, and others reiterated their commitment to this rate-hiking course. While we agree there is growing evidence of weakness in the domestic economy, it does not yet appear to be enough to force a material shift in the Fed’s intended pathway. Case and point: today’s non-farm payroll report was strong, with job gains of 263,000 and the unemployment rate ticked back down to just 3.5%. We also doubt central bank decisions overseas will undermine the Fed’s focus on reinstating price stability.

As we have stated, the cavalry is not coming this time around, either by way of the Fed or by the federal government. On that point, some clients have posed the question of how midterm elections may impact market action. In some ways, they have been demoted in importance as investors concentrate on Fed policy. Yet, the 2022 midterms will see all 435 House seats and 35 of the 100 Senate seats contested, while 36 out of 50 states will elect governors. In general, the incumbent party (Democrats) would be expected to lose ground and given the more difficult backdrop for U.S. households, the Democrats would be anticipated to perform poorly. However, over the past few months the polls and mobilization around key legislation like Roe vs. Wade has left the Democrats with a degree of optimism over their chances of holding the Senate. Republicans are still slightly favored to win the House. Of course, a lot will depend on voter turnout and as we have learned in recent years, polls are not reliable. Notably, a recent Axios poll highlighted that 53% of those canvassed were worried about the prospect of a divided government and gridlock. Ironic, don’t you think?

From a market perspective, history has demonstrated flat or rising returns from midterms through the next Presidential race in most cases. While that would be nice, we aren’t certain that midterms will play a large role in market action this time around as few see the government playing a role in backstopping this economic downturn.

We are, however, certain that the escalating war of words and risks of the Russia-Ukraine war will have an impact on markets. Last night, President Biden warned the world would face ‘Armageddon’ if Putin uses a tactical nuclear weapon in Ukraine. He described the world as the closest it has come to a nuclear catastrophe in the 60 years since Kennedy and Khrushchev during the Cuban missile crisis. The risk inherent in this standoff is unanalyzable and binary and yet it exists. God help us all.

There are no easy answers for how soon the pressure comes off the markets in the face of risks like these and others. We acknowledge there are no shortage of reasons to worry, and that makes investors feel uncomfortable. Looking for words of wisdom to offer this week, Warren Buffett reminds us that “we don’t have to be smarter than the rest, we have to be more disciplined than the rest." Your plan is the most important element in the success of your portfolio: the liquidity needed now and in the future, the long-term compounding returns necessary for adequate growth to see your plan through, and the portfolio's place in the array of the goals and objectives of your financial life. With those insights, charting your course through volatility becomes knowable and unemotional and even empowering. Your decision becomes less about what Putin will do or the Fed, or even one quarter's earnings reports, but more about what you need to live your life and how to take care of those you love. We urge you to continue the dialogue with us, revisit those plans, and affirm your strategy accordingly.

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**.

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