Ropes Wealth Reflects on Power & Heads of Lettuce

British Prime Minister Liz Truss resigned yesterday after a chaotic 45 days in office. While she was chosen by the Conservative Party to fill the shoes of disgraced Boris Johnson, her leadership was marred by disaster, starting off with the death of Queen Elizabeth II a few days after their meeting and her appointment. With a country in mourning, she then went on to announce a package of tax cuts that largely favored the wealthy in a time of rampant inflation. This announcement caused the value of the pound to plunge while borrowing costs spiked, forcing the Bank of England to intervene to stabilize British bond markets. Truss eventually reversed course and fired her top ally and Finance Minister, Kwasi Kwarteng, just 38 days after the pair took power.

In the wake of that news, the *Economist* published an article that dubbed Truss "Iceberg Lady" (in contrast to Margaret Thatcher's Iron Lady) claiming she had "the shelf-life of a lettuce." And so began the swirl, culminating in a social media gag livestream of a head of lettuce with a blonde wig pitted against the Prime Minister, with bets on who would last longer. In the end, the lettuce won.

In other news, the countdown to the mid-term elections is underway, and momentum is said to be building for Republicans, though we have all learned to have a healthy distrust of the polls in this fraught time. The 800-pound gorilla in the room is inflation, but there are many discrete issues filtering through voters' minds these days--crime, abortion, recession, energy prices, the border, schools, and Ukraine, to name a few.

Markets have had little time to focus on elections, though, as earnings reports come in fast and furious. This week, Tesla reported disappointing sales while IBM topped forecasts. Netflix let us know they added 2.41 million customers in the quarter, while popular teen social media giant Snapchat's results disappointed and they announced plans to cut 20% of their workforce. L'Oréal's sales surged as consumers snapped up makeup and skincare products, while Gucci and Adidas struggled as overseas demand faltered.

All told, though, while many have been anticipating an earnings apocalypse, the evidence so far suggests a contraction but not a collapse. And yet, the recession drumbeat continues, with economic data showing signs of pain. This week, it was housing that took center stage, as housing starts, building permits, and existing home sales sank in the context of spiking mortgage interest rates.

Speaking of interest rates, Federal Reserve officials remained relentless in their jawboning, continuing to press forth with seventy-five basis point rate hike guidance for at least the next two FOMC meetings. Markets therefore seesawed, especially as this news was absorbed against the fortress China image painted by Chinese President Xi Jinping in his address to the 20th National Congress of the Chinese Communist Party. Most notable among his comments was an absolute commitment to a zero COVID policy, a reemphasis on Chinese unification in a shot at Taiwan and Hong Kong, and a commitment to common prosperity and reforms (on the tech and real estate sector) with investment (green energy) that will drive it. Absent from the speech was a shock-and-awe stimulus plan, and also actual economic numbers. In fact, the statistics bureau delayed those numbers with no warning this week and with no date for a rescheduled release. Maybe we should get another head of lettuce and livestream going.

A client recently posed a question to me about who has the power to change the course of the economy and markets and why aren't they doing anything about the current situation. To me, the most powerful people in the room right now are Putin and Powell. A decision by Russia's president or the Fed Reserve chief to either pause or reverse course would be a significant driver of market momentum as it would relieve pressure and allow for some healing. In the absence of the power dynamics shifting, we see more volatility ahead but also the door opening on some opportunities. We have mentioned the indiscriminate nature of this sell-off before, and it continues to be true that high quality businesses and market segments are in similar decline to those without economic moats and favorable valuation dynamics. Since the road to this economic and market recovery will not be stimulus-driven, it really matters what you own and how your portfolio is configured. One of my old bosses used to use the line, “there is always free cheese in a mousetrap” to remind us of the dangers of losing track of fundamentals and that sometimes it does not matter how “cheap” something has become. With apologies to Gordon Gekko, greed is, in fact, not good. Our work continues to keep your portfolio free of mousetraps and focused forward, and we thank you for the opportunity.

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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