Ropes Wealth Addresses Another Rate Hike & What May Lie Ahead

"The Committee is highly attentive to inflation risks. The Committee seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run. In support of these goals, the Committee decided to raise the target range for the federal funds rate to 3 to 3-1/4 percent and anticipates that ongoing increases in the target range will be appropriate."

--excerpt from Federal Open Market Committee (FOMC) statement, September 21, 2022

As expected this week, the Federal Reserve opted to raise interest rates by 75 basis points, taking the target range to 3.00% to 3.25%. The Fed has now notched a total of 300 basis points in policy adjustments since March of this year. The decision to raise interest rates was unanimous.

Also unanimous was the market's angst as it confronted the reality of a Fed determined to control inflation, regardless of the costs to the labor market and broader economy. Gone was the idea of being data dependent, or seemingly any mindfulness of their dual mandate of both stable prices and maximum employment. Rather, Powell underscored during the press conference the decreasing probability of a soft landing and the complicated nature of inflation with supply-side constraints still in place. Even so, he emphasized the Fed will not be deterred from their course.

As such, the Fed appears to be eyeing a fourth-round 75 basis points increase come November 2, just about a week ahead of the midterm elections. In fact, their projections show the benchmark rate rising to 4.4% by the end of the year and further to 4.6% in 2023 before easing to 3.9% in 2024. Of course, with inflation still more than three times the Committee's desired 2% target, will interest rates at or over 4% be enough?

Against this backdrop, markets continued their struggle this week and sentiment overall remains dejected. The economic cycle is in a new gear, and we are facing an increasingly hostile macro environment, with higher rates, higher inflation, and shifting secular trends. Gone are the days of plentiful and cheap labor and energy. Gone are the days of easy money and abundant liquidity. Gone are the days of fat returns and low volatility.

Hard to say, but navigating the pandemic stock market was easier to manage than the risk array we face today, because gone are the supports upon which we had come to rely. However, while natural human behavior psychology and your 'fight or flight' part of the brain may have you wanting to ratchet down or up your equity allocation (depending on your risk tolerance and personality!) in times like these, a steady hand is warranted. There are often little benefits to be gained by timing the market; selling into distress or buying for speculation are often a fool's errand.

We are doubling down our efforts to consider how to make money in a period of these complicated cycle shifts. We see diversification as increasingly important, which has not been true for a long time in markets pumped up on monetary largesse. We believe diversifying across factors, styles, sectors, and countries will provide the best chance to garner returns by opening a portfolio up to a broader opportunity set. In terms of security selection, strategies that reflect valuation discipline and prioritize companies with sustainable balance sheets that are compounding returns will be critical. In fact, we favor a bit of a barbell between defensive, stable growth, companies with relatively predictable, recurring revenues and cash flows, together with value, particularly in areas where cash flows and earnings can improve. Matched with the now much higher income potential of a bond allocation, we see the end of 2022 and 2023 setting up for some relief to the current pain for the patient (pun intended).

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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