***Ropes Wealth Muses About the Mileage in the Economy***

Among the headlines this week, Amazon announced that it had its “biggest ever” Prime Day, with shoppers buying more than 375 million items worldwide over two days, up from 300 million items sold last year. Top sellers were Fire TV sticks, Apple AirPods, and Laneige lip balm. At the same time, we also learned that the July 4th holiday weekend marked a 10-year low for attendance at Disney World. Is pandemic-induced ‘revenge travel’ over or is Disney experiencing a DeSantis effect? Meanwhile, I*ndiana Jones, The Flash*, and *Transformers* movies bombed their expected box office takes. Say it ain’t so, Short Round!

I mention these conflicting reports to highlight we live in strange times. On the one hand, the economy is back in business: job gains continue, the housing market is stable, and consumers are doing their best to keep up with their spending, even if they are prioritizing lip balm and AirPods over *Pirates of the Caribbean*. On the other hand, credit card debt is at an all time high, mortgage rates have hit 7.07%, loan losses are back at pandemic levels, and corporate earnings are expected to sag by 5-8% in the upcoming reporting season.

But at least inflation is abating, as evidenced in this week’s reports of consumer and producer prices. On Wednesday we learned that the Consumer Price Index (CPI) rose just 3%, slowing from May’s 4% annual rise to mark the lowest reading since March 2021. The more closely followed core inflation rate (which excludes food and energy prices) was also improved, slowing to 4.8% from 5.3% the month prior. While still well away from the Fed’s target 2% level, this slowdown provided a huge boost to investor sentiment, triggering a broad rally in stocks that drove market indices to a 15-month high.

Likewise, yesterday’s producer price report was consistent with the recent signals that price pressures have fallen sharply from the four-decade highs of last year. The core PPI rate was up just 2.4% versus June 2022, at its lowest level since January 2021.

Expectations are building among investors that the Federal Reserve’s interest rate-hiking campaign could be nearing an end. But while inflation may be slowing, Fed officials in recent weeks have repeatedly emphasized the need to subdue price pressures. As a result, most believe the Fed will increase its benchmark rate another quarter point after its July 25–26 meeting, bringing the target range to 5.25%-5.50%.

At one point in Raiders of the Lost Ark, Karen Allen (Marion) says to Indiana Jones: *“You're not the man I knew ten years ago.”* Harrison Ford responds in the iconic way that only he can, charming yet patronizing: *“It's not the years, honey, it's the mileage.”* Like Indy, this economy is not what it was ten years ago. We have survived a global pandemic, for goodness’ sake! The economy is carrying the mileage of that experience and has likewise become an enigmatic character that is both flawed yet fierce. It will continue to confound us with conflicting signals and is vulnerable to shocks, emanating from a banking or commercial real estate crisis or geopolitical risk caused by Russia or China. Therefore, the path forward is not unobstructed; we still have demons to fight to recover and regain what was lost. And yet markets continue to demonstrate how dangerous it is to try to time your entrance and exit, and how important it is to not give up on your plan. We reiterate our recommendation to line up your liquidity needs and invest them in high yielding money markets and bonds as a first order priority. But we are also now looking to capitalize on a broadening of market performance away from a handful of technology companies. We see real potential in mid- and small- capitalization stocks that have been caught up in headwinds that could start to dissipate especially as the Fed closes in on the end of its campaign to raise rates. Our experience, or “mileage” to borrow Indy’s words, tells us that it is still a time for balance, for an approach of “both/and.” Why? This

time around, without the backdrop of a severe banking crisis or global pandemic, we believe we can have both an economic data slowdown or recession and relative market resilience. After all, stocks already declined broadly last year, pricing these risks. And we believe there are enough companies strong enough to fight their way through to a happy ending even if they encounter some volatility along the way.

Thank you as always for your interest in our investment commentary (And Dad, if you are reading this, I will take you to see *The Dial of Destiny* this weekend). If you would like to speak personally with a member of our team at any time, please click **here**.

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