Ropes Wealth Reviews Strikes, Shutdowns, and More

At midnight, the United Auto Workers (UAW) began an unprecedented strike at all three of the legacy Detroit carmakers, kicking off a potentially costly and protracted showdown over wages and job security. Workers walked out on a Ford Motor Co. plant in Michigan that makes Bronco SUVs, a General Motors Co. factory in Missouri that assembles Chevrolet Colorado pickups and a Stellantis NV plant in Ohio that builds Jeep Wrangler SUVs. The strategy is designed to methodically cut production of profitable vehicles while minimizing the impact on the UAW's strike fund. The union said it will add strike locations depending on how bargaining progresses.

Shawn Fain, the UAW's president, is pushing for a reset of the relationship between the automakers and their workers. Fain argues that the automakers have had it too good at labor's expense in recent years. The automakers argue they have offered historic wage increases and manufacturing commitments but that meeting the UAW's demands in full would make them unprofitable and cause a catastrophic loss of market share to overseas and other non-union manufacturers like Tesla.

Labor activism has strengthened in recent years, with workers agitated by inflation and risks shouldered during the pandemic coming together to capitalize during a tight labor market. Unions have notched a series of victories against some of the most prominent U.S. companies, including the major railroads and United Parcel Service Inc. The effects of the UAW strike could ripple across the economy, with steelmakers and parts suppliers expected to be hit as production comes to a halt at the three plants — and potentially others.

Meanwhile, after the traditional August recess, both chambers of Congress have returned to Washington and are now facing a frantic scramble to avert a government shutdown at midnight on September 30. Neither the House nor the Senate is anywhere near passing all 12 of the appropriations bills to fund government operations for the fiscal year that begins on October 1. The focus right now is on putting together a short-term extension of that funding until perhaps mid-November to avert a shutdown and buy lawmakers some additional time to figure out the longer-term spending details. The White House has asked Congress to attach roughly $40 billion in emergency spending to that temporary extension of funding. That includes $24 billion in new aid for Ukraine and its ongoing war with Russia, and about $16 billion in domestic disaster aid, including the Hawaii wildfire and the recent hurricane in Florida. However, the aid for Ukraine has become a flashpoint that could push the government into a shutdown, as conservative House Republicans argue for more spending cuts.

Economic data this week was more of the same: inflation is making progress but not enough, and consumers continue to spend but cracks are showing. The Consumer Price Index (CPI) grew at a 3.7% rate year-over-year, while excluding the impact of food and energy prices, advanced at a 4.3% rate. The Producer Price Index (PPI) showed prices rose 1.6% year-over-year, while excluding food and energy costs, that gain was 2.2%. Retail sales grew at a 2.5% rate over last year, but the look-through cause of that gain was spending on gasoline as the national average price at the pump hit $3.858 this week according to AAA.

For policy makers, this week's news creates a conundrum as on the one hand it would be good to clear another interest rate hike to maintain the anthem of vigilance against inflation, but on the other it is tough to make a move in the midst of strikes and government shutdowns, and given previous messaging that next week's Fed meeting would likely deliver another pause before a potential (and perhaps final?) policy adjustment in November.

Stocks are taking the strike and shutdown news in stride and were instead more focused on some improving Chinese industrial production and retail sales numbers as a sign that this important economy is perhaps stabilizing, and their program of targeted stimulus might avert a further deterioration in conditions. There was also the successful IPO of semiconductor designer Arm Holdings (ARM) which surged nearly 20% in first day trading, illustrating the market's ongoing embrace of all thing's artificial intelligence. Skeptics argue the stock was underpriced and offered in a narrow amount (only 10%) as owner SoftBank needed to engineer a win after a string of embarrassing losses, including SenseTime Group, DiDi Global Inc, and of course, WeWork, Inc. Next up will be Instacart, the largest grocery delivery business in the U.S., which filed on Friday to sell 22 million shares at a price range of $28 to $30 apiece.

Today, September 15, marks the 15th anniversary of the Lehman Brothers' collapse, an event that triggered more than three months of turmoil in global financial markets and effectively halted lending by banks worldwide. We have come a long way from the economic turmoil that was the aftermath of that crisis, with millions losing jobs and homes. That crisis ultimately unleashed an unprecedented amount of fiscal and monetary stimulus that set the stage for an extended bull market.

In 2023, the jobs market is the best part of our economic situation, keeping the consumer in business, but in a markedly different environment of higher interest rates, sticky inflation, and in an era where fiscal support is anything but guaranteed or constructive. The relief recovery from 2022's market downturn peaked at the end of July, and since then choppiness has characterized market trading. While companies had better-than-expected earnings growth, they had relatively weak revenue growth which means they achieved those stronger earnings via rather aggressive cost-cutting to maintain margins. If revenue continues to contract, it may only be a matter of time before the cost-cutting makes its way into job cuts.

As investors grapple with recession risk and try to reconcile conflicting data and anxiety over cracks forming, we urge a commitment to the disciplined approach that is the centerpiece of your financial plan. Economic growth and markets tend to move in cycles, influenced by factors we can predict and others we cannot. The things we do know, your personal financial goals and situation, should drive asset allocation first and foremost, with specific investments the tools of your implementation that we adjust and refine to achieve your desired outcome. In other words, your investment plan should be all about *you*, which hopefully removes the anxiety of trying to read the tea leaves of where this is all going and takes the emotions out of the latest worrisome headline or euphoric IPO pricing. With that in mind, let our conversations continue as we commence year-end planning to get you ready for another turn of the calendar in a few mere months.

Thank you as always for your interest in our investment commentary. Please let your RWA team know if you have any questions or concerns. If you would like to speak personally with a member of our team at any time, please click **here**.

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