Ropes Wealth Reminds Us No Bird Soars in a Calm

My oldest son who is a junior in high school was inducted into the National Honor Society yesterday. At the ceremony, the Assistant Headmaster offered some words of perspective to the gathered parents and students. He quoted the Wright Brothers, specifically Wilbur, who said, “No bird soars in a calm.” The idea being that their achievement was even more notable because it came with struggle. We are strengthened by the storm, the headwinds, and the turbulence. In fact, often we are even elevated by the pressure and the prevailing winds and forces that come upon us. It was a perfect comparison to mark the moment for parents and students and perhaps for all of us as we consider the markets.

My life’s work, besides trying to be a good mother of course, is to remind you that the storms we are in today are part of a pressure system that will challenge the economy and companies for sure, but that the future is not hopeless. We will be challenged but some companies will emerge stronger, having met those hurdles with innovation and ideas that move us forward. Our work is to focus on identifying those businesses, and to guide you through the turbulence overall with good planning.

With that, it has been a hard week. There was a horrific mass shooting in Lewiston, Maine and the suspect is still at large. Fighting in Ukraine and Israel has intensified. The U.S. has carried out airstrikes targeting two facilities linked to Iranian-backed militias in Syria following nearly daily attacks against U.S. forces in the region. Politics in Washington remain as frayed as ever, with the newly elected Speaker of the House Mike Johnson noted for his hard-right conservative politics including playing a lead role in trying to overturn the last election. That said, Johnson has said he is in favor of passing short-term stop-gap funding measures to avoid a government shutdown on November 17.

In economic data releases, third-quarter GDP growth surged past expectations. GDP accelerated 4.9% on an annualized basis in the preliminary Q3 report, following a 2.1% gain in the second quarter for the fastest quarterly pace since Q4 2021. Despite 525 basis points of tightening that have brought interest rates to a 22-year high, the U.S. consumer, the backbone to the economy, remained resilient with the strongest pace of spending in seven quarters. Federal government spending, exports, and residential fixed investment were also strong. Businesses were feeling more of a pinch from higher prices and thus exhibited no growth from investment in the third quarter.

Inflation, meanwhile, continued on the disinflationary trend with the Core PCE Price Index, the Fed’s preferred gauge of inflation, reported this morning at 3.7% in September. Headline inflation was 3.4% on a yearly basis in September, the U.S. Bureau of Economic Analysis reported this morning. While progress is being made, it is slow, and we are still not at the hallowed 2% target rate the Fed has in mind.

And yet the market is anticipating the Federal Reserve will hold rates steady in November and potentially longer as the economy remains solid and inflation continues to move closer to the Fed’s 2% target. Of course, with energy and other commodity costs pushing headline costs higher over the past three months, the inflation risk remains to the upside.

Earnings season has so far yielded a bit of a mixed bag from Wall Street. 78% of companies reporting so far are beating estimates, but more firms than usual are flagging lower consumer demand and a deteriorating economic environment. Technology companies are especially under pressure, as those stocks once priced to perfection have been walloped, with the Nasdaq Index declining by over -12% from a July peak. Cautious guidance on semiconductor chip demand and internet advertising hurt the likes of Meta, Alphabet, and Microsoft, though Amazon and Intel have investors feeling better today. In a nutshell, though, the broader market is steadily giving back gains from earlier this year that were driven mainly by the largest stocks. One way to think of it is that the market is "catching down" to what the other 99% of stocks are doing.

The reality is that investors doubt the economy can continue to grow at this pace as the job market slows and interest rates remain high. Add into the mix geopolitical risk and there is no positive catalyst on the horizon to motivate sentiment and risk appetite. Absent a material change in interest rate policy, the market is going to key on earnings and outlooks for now, which plays to the balanced and quality emphasis we have as the hallmark of our portfolio strategy today and always.

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.**

Ropes Wealth Advisors LLC
800 Boylston Street Boston, MA 02199-3600