Ropes Wealth Talks Road Trips and Rate Cuts

"Are we there yet?" The universal question from our kids in the backseat of any road trip ever taken. Watching Fed Chair Jay Powell squirm through his press conference this week after the Fed's announcement of their decision not to cut interest rates reminded me of my boys launching this interrogative, usually about 20 minutes after we first started on the highway and about 3 hours before we were in sight of our destination. When you tried to explain the journey, their eyes would glaze over or mayhem would erupt, the kind that could only be mollified by a good snack or changing the radio station to *their* music.

Powell opted to change the station, giving investors just enough of what they needed to hear about improvements in inflation, but asking them to hang in there on rate cuts for the last few miles of this journey. "*Today was a better inflation report than almost anyone expected,"* he said, referencing Wednesday's more tempered Consumer Price Index (CPI) report. *"Inflation has eased substantially from peak levels,"* he continued, *"but is still too high."* These comments, along with the updated "dot plot" of expected changes in future rates painted the picture for investors of a Fed on hold until December. Then the forecast showed the Fed is expecting to make one interest rate cut, followed by four more in 2025. For now, the Fed Funds target rate remains in a range of 5.25% to 5.50%.

To recap the economic data of the week, the CPI was flat in May, following a 0.3% gain in April. Year-over-year, consumer prices rose 3.3%, a tenth of a percent point below expectations and down from the 3.4% annual increase in April. Meanwhile, the core CPI posted 3.4% growth year-over-year, a downtick from the 3.6% annual increase in April and the slowest pace in more than three years. In the details of the report, medical care and shelter prices remain the main culprit of ongoing price pressures.

Likewise, the Producer Price Index (PPI) posted its largest monthly decline since October in May, falling -0.2%. Year-over-year, producer prices rose 2.2% in May, down from a 2.3% gain in April. The core PPI increased 2.3% in May, down from the 2.5% annual gain in April and the smallest annual increase in two months. Stock markets were elated by the progress shown in these reports, while bond yields dove lower as the prospect of interest rate cuts grasped investor attention even as the Fed meeting concluded this week.

Some buyer's exhaustion is being noted as the melt-up in stock prices continues. And with second-quarter earnings season a month away, investors will soon have fundamentals to consider. S&P 500 earnings are expected to be up +8.6% from the same period last year on +4.6% higher revenues. In addition to the artificial intelligence halo effect, cost cutting will continue to be a theme, in addition to evidence that companies are maintaining pricing power under disinflationary conditions.

Of course, it goes without saying that all eyes will also be on the presidential election in the coming months as the presumptive nominees will highlight their party platforms at the conventions this summer. Like my kids in the backseat of my car anxious to reach our destination, most of us wish we were already at the end of this upcoming drive to November 5. Of particular note to investors, fiscal leadership will be requisite in 2025 given approximately $4 trillion in expiring tax provisions, conceivably making next year the most consequential since the current tax system was developed in 1913. Against this backdrop, we continue to position diversified portfolios toward benchmark weightings, relative to exposure within capitalization (large vs. small), investment style (growth vs. value), and region (developed vs. emerging). A balanced approach at this point in the cycle, in our opinion, will help protect investors from the market risks associated with elections, interest rates, geopolitics, and extent of the expansion. With a prudent portfolio structure, and one that is held in check with rebalancing discipline, it becomes much easier to slow down, look out the window, and enjoy the ride.

Best wishes to all the fathers, grandfathers, uncles, brothers, and father figures in the audience as you are celebrated this weekend. Happy Father's Day!

Thank you for your interest in our investment commentary and for your relationship with us. If you would like to speak personally with a member of our team at any time, please click **here**.

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