Ropes Wealth Advisors Sees We Are (Still) Living in a Material World

Remember the movie "Fight Club" and how the first rule of Fight Club was, *"You do not talk about Fight Club"?* One of the other most provocative things the Tyler Durden character said was, *"The things you own end up owning you."* Tyler's nihilistic critique of American consumerism aside, it was a joyful week on Wall Street thanks to strong retail sales and selected retail sector earnings reports.

Indeed, in July, Americans spent the most they had in a calendar month since January 2023, as sales of autos and auto parts, as well as electronics and appliances, surged. Spending at bars and restaurants also continued at a healthy pace. Less strong were sales of apparel and at specialty retailers. While Home Depot beat Wall Street's second-quarter earnings expectations, CEO Ted Decker told analysts that higher interest rates and greater macroeconomic uncertainty put pressure on consumer demand, resulting in weaker spending across home improvement projects. Luxury brands like Louis Vuitton, Dior and Fendi shared similar sentiments.

Meanwhile, Walmart blew the barn doors off yesterday with their latest earnings report. Walmart's same-store sales were up 4.2% last quarter and operating income surged 8.5%, leading to a banner day for the company as its stock reached an all-time high. Every part of the business is growing, the company said in a press release. Consumers must be on a hunt for value in their spending habits as the pressures of inflation have taken their bite.

On that point, inflation reports this week showed improvement, which will help support the case for the Federal Reserve to cut interest rates in September. The consumer price index (CPI) rose 2.9% over the 12 months through July, while core CPI (excluding food and energy prices) grew just 3.2%, marking the slowest rate of inflation growth since April 2021. Most of the annual gain reflected stubborn housing inflation. Likewise, the producer price index (PPI) showed a benign 2.2% rate of growth, while the core PPI (excluding food and energy) grew at just 2.4%.

With that, and continued evidence of relatively reduced levels of hiring, the Fed is expected to be on deck in September. In an interview with The A*ssociated Press,* Austan Goolsbee, president of the Federal Reserve Bank of Chicago, said that because the Fed's rate decisions typically affect the economy only after an extended time lag, it must avoid waiting too long before reducing rates. *"There is a danger when central banks fall behind events on the ground,"* Goolsbee said. *"It's important that we not assume that if the labor market were to deteriorate past normal, that we could react and fix that, once it's already broken."* We could not agree more.

As we wrap up these last weeks of summer and look to finish out 2024, we see the economy entering a new phase, with slower growth and slower inflation, but also lower interest rates and higher unemployment. As for markets, we think the good companies we select on your behalf, either individually or in the funds we choose, will manage that transition effectively, but perhaps not without some calibrations. There is more competition from fixed-income, with still relatively robust bond yields available across the yield curve, and high valuations in certain stock segments like technology. There are also many companies that have not experienced the same surge in prices since the lows of 2022 that may be due for a comeback. These calibrations will offer opportunities, and we will strive to manage those to your benefit. For now, we urge you to consider a few planning moves to get ready. With markets back at all-time highs after such a brief hiatus, considering making planned charitable contributions now with your appreciated stock, versus waiting until year-end when conditions may change. Likewise, if you have not already done so, consider taking required minimum distributions from retirement accounts sooner than later. If you don't need the funds immediately, allow us to invest them for you in U.S. Treasury Bills or short-term tax-exempt municipal bonds to lock in high yields before the Fed makes a move to cut interest rates.

Let's get ready together for this next phase of our economy and market conditions, and as ever strive to ensure we are doing all that is possible to help you achieve your goals.

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