Ropes Wealth Suggests Staying Steady in Seasonal Swoons

Ah, September. Back again to sipping on pumpkin lattes and watching the market puke as the anxiety over these historically treacherous market months converge with a vacuum of earnings releases before the end of the quarter. This year's September to remember has the additional ingredients of a contentious election and an active Federal Reserve on the brink of cutting interest rates. It is enough to make one swoon, and that is exactly what the market has done this week.

Let me say up front and clearly that losing one's composure in the face of market resets is not a recipe for long-term investment success. Especially when the market was at all-time highs on July 16 and the current hiccup has more to do with a market broadening and shift in sector leadership than a massive re-pricing of our growth backdrop. Consider that year-to-date up until July 16, two sectors were outperforming the S&P 500 index: technology and communication services. Since then, seven sectors are outperforming, and those two are lagging. Time and again, we discuss how it was uneasy to have only a handful of names leading the market higher. Now, finally, breadth is catching up to prices rather than prices catching down to breadth.

This doesn't mean that tech and communication services stocks are down for the count. In fact, as we saw yesterday, when anxiety builds, it is often those large mega-cap names that seem the most defensive for investors seeking out deep-pocketed companies.

We would be more worried if CEOs were calling out "recessions" in their most recent calls. We would be nervous if credit spreads were widening to reflect rising risks of default. We would be bracing ourselves if we saw evidence of balance sheet deleveraging, often the harbinger of large-scale asset price declines. None of those conditions are in play. Instead, we seem to be experiencing a bit of a garden variety soft patch in economic data, with slowdowns noted in payrolls and manufacturing this week.

This was evidenced in today's report on August job growth, which showed only a 142,000 increase in nonfarm payrolls, short of expectations of a 165,000 gain. The three-month average payroll gain declined from 141,000 to 116,000. The unemployment rate ticked down slightly from 4.3% to 4.2% in August, as expected and a two-month low. Average hourly earnings rose 0.4% in August, a tenth of a percentage point more than expected and following a 0.2% increase in July. Year-over-year, wages rose 3.8%, up from a 3.6% gain in July and the largest annual increase in two months.

This slowdown in the labor market is not the only point of concern for investors. Also reported down was the latest reading of the Institute for Supply Management (ISM) manufacturing PMI. It was the fifth straight month and 21 out of 22 times to show contraction in the manufacturing sector. That followed disappointing August manufacturing data from China over the weekend, furnishing fresh evidence of weakness in both countries and weighing on crude oil, copper, and other commodity prices. While the August ISM Services PMI was reported at 51 and in expansion territory yesterday, the damage was done. And even though crude oil hit a new low for 2024 at just below $70/ barrel, the market was not celebrating the savings, but focusing on the building evidence of a slowdown.

A soft patch is not the same as a recession. While it is hard to recall this, equity prices can and do go down for periods of time during bull markets. We think this is one of those times and the severity and duration of any declines will be contained. And in some ways, we are way ahead of the game in that we have worked so closely with you to consider allocations to appropriate amounts of cash and bonds and in many cases selectively weaving

in other market segments benefitting from a market broadening like small-cap stocks, value styles, and certain overseas market exposures. Lest we forget also that the Fed is about to embark on an easing cycle which should help loosen financial conditions at the margin and limit some of the downside.

Also in the mix is an increasing level of chatter about taxes and changes to tax policy in this election cycle. There is no question that some market action reflects early positioning around discussions of potential changes in the tax code. But keep in mind that at least historically, higher corporate, income, and capital-gains tax rates have little correlation with stronger or weaker economic growth or equity-market performance. A higher tax burden does not directly translate to negative or positive stock returns. The business cycle is much more relevant to market performance than the tax policies of one political party or another. Even so, we are with you in considering these impacts and devising the right strategy for your situation and look forward to our discussions on this topic as the season unfolds. For now, I hope you will join me this weekend and indulge in some pumpkin spice or cider apple sweetness to soothe your worries over September swoons.

If you would like to speak personally with a member of our team at any time, please click **here**.

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