
***Ropes Wealth Asks You to Stay Gold and Above the Fray***

Another week brought another devastating hurricane impacting our friends and loved ones, this time in Florida. While in some ways the “worst case” did not happen as thankfully the death toll appears limited, millions are without power and the destruction was fierce as Hurricane Milton delivered a quick, hard blow to the center of the state. The wind shear from the storm caused at least 38 tornados, and it was quite a sight to see the roof torn straight off the Tropicana Field sports stadium. Losses may reach $75 billion or more according to initial estimates, even as Federal Emergency Management Agency (FEMA) and the Small Business Administration (SBA), already dealing with Helene’s aftermath, are out of resources and need more funding from Congress.

Between these natural disasters and the election, investors feel uneasy, and we can relate. Even though markets were positive this week, conviction seems to be waning. Part of the reason is that economic data both on jobs last week and inflation this week seems to undermine the Federal Reserve’s case for cutting interest rates, or at least for reducing them as aggressively as investors hoped. The Fed and their interest rate cuts were providing a pretty big offset to some of the worries out there, and now investors are questioning whether we are going to get those cuts in the magnitude and pace that was being priced into expectations. It didn’t help that Atlanta Fed President Raphael Bostic said he’s open to cutting interest rates by 25 basis points or pausing at the Fed’s meeting next month depending on how the economic outlook develops: *“I am totally comfortable with skipping a meeting if the data suggests that’s appropriate…. This choppiness to me is along the lines of maybe we should take a pause in November. I’m definitely open to that … I think we have the ability to be patient and wait and let things play out a little longer.”* Not quite as decisive a tailwind as investors were banking on.

Recapping some of the data this week, the big headlines came from September’s consumer price index (CPI) which showed prices rose 2.4% in the last twelve months, running slightly hotter than expectations for a 2.3% rise. Annual core inflation also marginally overshot forecasts, with prices excluding volatile food and energy up 3.3%. On the producer price inflation front, the news was similar, with prices increasing 1.8% year-over-year as of September, though the core number excluding food and energy remained high at an annual growth rate of 2.8%.

Today also kicked off earnings season with asset managers like Blackrock and big banks like JP Morgan and Wells Fargo reporting better-than-expected results, especially in the net interest income category where concerns were growing on Wall Street estimates. Net interest income measures the money banks make lending minus what they pay in deposits to customers, and fears were building the decline in rates would pressure bank profits. They will, but it appears not as badly as some feared. Investors are always attuned to what JPM CEO Jamie Dimon has to say about the world, and he was not as sanguine as some hoped, emphasizing that the geopolitical situation is “treacherous and getting worse,” as well as the uncertainty with mergers and acquisitions and regulatory environments.

While the stock market behaved well this week, rising by close to 1% and trading at all-time highs, the bond market is where the real fireworks have taken place more recently. The benchmark 10-year Treasury note yield, which fell more than 100 basis points between April and September, has retraced about half that decline over the last three weeks, and at press time is yielding 4.10%. Rising treasury yields can hurt stocks by raising borrowing costs for consumers and businesses, but they also tend to accompany strong economic growth.

As we inch closer to election day, and the Fed meeting scheduled shortly thereafter on November 7, there is no question that there will be growing speculation and a build-up that emphasizes binary outcomes and short-term conclusions. We urge you to resist the temptation to get drawn into that way of thinking and focus on your own personal investment and financial plan. One candidate or another, an interest rate cut of 50 basis points versus 25 basis points, will not be the lynchpin of the success or failure of your plan. Intellectually we can all understand this, but emotions will run high, nonetheless. We are here to help you manage through those feelings and make appropriate, but not abrupt, and well-reasoned adjustments if your situation calls for it.

I was thinking of the best way to sum up this advice last night when my twin seventh graders gave me the answer as they worked on their active reading of S.E. Hinton's classic, The Outsiders. If you recall reading the book or watching the 1980s movie classic starring all the members of the Brat Pack, there is this poignant moment when the greaser and reluctant murderer Johnny Cade lies dying in the hospital after saving a bunch of kids from a burning church. He tells his friend Ponyboy Curtis to "stay gold, Ponyboy, stay gold" with his last breath before dying. What Johnny is urging is for his friend to hold onto the good and golden qualities and transcend short-term challenges and bad influences. And so, fair reader, I urge you too to stay gold, this fall and always.

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