Economy, Stocks & Bonds NEWSLETTER

Pete Baksh, CFA Vice President and Chief Investment Officer

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Shortly before the June meeting of the Federal Reserve, the new Chair, Kevin Warsh took the reins of the institution. This is a turning point, as one of the key messages conveyed in his inaugural press conference is that the Fed is moving away from giving forward guidance. This is likely to lead to increased volatility as market participants will be using their own proprietary models instead of ones based on Fed guidance to forecast, and thus position in the rates and credit markets, which will flow through to stocks as well. With that said, it permits the Fed to act with less short-term pressure, and that is likely a good thing for markets.

The most recent Core PCE reading, which notably excludes food and energy prices, came in at 3.4% in the most recent reading, with the PCE measurement including those at 4.1%. That is roughly double the 2% target that the Fed uses and indicates that inflation is not under control. We are hearing language reminiscent of 2021-2022, where officials told us inflation is “transitory,” and in our view represents a notable risk to economic growth and by proxy, asset classes. The real risk is that inflation remains stubbornly elevated and economic growth stalls, which would be a return to conditions not seen since the 1970’s. In such a case, the Fed will lack the monetary policy tools to stimulate the economy. For now, the economy, along with the labor market, appears relatively strong. Wage growth, when adjusted for inflation is only up 0.1%, barely keeping up with rising prices. If wage growth stalls and/or inflation continues to climb, we will reach a point where the consumer will begin pulling back and thus economic activity will slow and potentially enter recession.

Currently, markets are exhibiting characteristics of a potential bubble in the AI related stocks, and the S&P 500 is now roughly 40% composed of the Tech sector. This increases risk and could lead to volatility in the Fall. For now though, the market continues to trade near all-time highs. In terms of bond yields, investors are getting paid ~4.7% for 5-year paper and 5.2% for 10. These rates are relatively attractive for fixed income investors and those hedging equity risk in bond allocations in their portfolios.

It is worth noting that given the conditions in the S&P, we continue to advocate a disciplined, diversified approach that reduces the risk inherent in the broader index. Our view is that an investment plan is designed to achieve your financial goals while minimizing risk, not chasing asset bubbles and euphoria. This is the same philosophy as the one that we advocate, to avoid selling into panics. If you have questions about what this means for your portfolio or positioning, please reach out to us.

OUR BOND INVESTMENT PROCESS

Most investors think of bonds as the boring, set-it-and-forget-it part of a portfolio — but that thinking can quietly cost you a lot of money. The bond market is enormous, more than twice the size of the stock market, and prices move every day based on interest rates, credit conditions, and what the Federal Reserve is doing. When interest rates are high, locking in attractive yields for the long term can pay off for years, but there is a catch, because the dollar value of bonds declines when inflation and rates spike. When there is evidence of further inflation, higher rates, and volatility in those rates, we need to be cautious about our approach to getting our fixed income allocation invested; similar to the way that we periodically invest the stock portion. The purpose is to reduce risk in both cases.

Depending on conditions, it can sometimes take longer than expected to deploy capital to fixed income, but the approach has yielded significant performance advantages, over long periods of time. If you have questions about our approach to investing in bonds, please feel free to contact the investment team.

WELCOME TO OUR NEW EMPLOYEES

Claudia Gonzalez

We are pleased to welcome Claudia Gonzalez as Vice President and Trust Officer. Claudia joins us with 20 years of experience in the wealth management arena. She has an extensive knowledge of trust statutes and regulations along with tax preparation and planning skills. Combined with a strong legal background and understanding of the investment and financial planning facets of the industry, Claudia is an excellent addition to our team.

Samantha Nunnery

We are also very excited to welcome Samantha Nunnery. Samantha joins us as Trust Operations Manager. Samantha comes to us with 25 years of management/supervisory experience in the financial industry. With an indepth knowledge of backoffice and operations procedures, she will head up our team of vital support staff to provide accountability and optimum service for our clients.

We are very fortunate to have two excellent, seasoned and experienced additions to our staff of professionals and we look forward to their success as members of our growing team.