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Private Wealth Management
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The Parable of the Chinese Farmer

4th Quarter Newsletter - October 2023

Welcome to the 4th quarter of 2023! The major equity market indices are mixed YTD with less than a dozen companies responsible for most of the gains. The bond market, as defined by the Aggregate bond index or AGG, is down YTD and depending on the 4th quarter, could be the first time in history for three consecutive years of bond market declines. After last year's abysmal performance in the capital markets, there is a real potential for gains in the equity markets this year. The greatest known risk to that forecast is a resumption of inflationary pressures that spark a Federal Reserve interest rate hike in November or December. The catalyst for such a move has professional money managers, economists and business leaders largely focused on the Federal Reserve and 3 major economic data points: Unemployment, GDP (Gross Domestic product) and CPI (Consumer Price Index).

The main driver of performance this year has been large cap technology AI companies. Their enormous ascent has stalled in recent weeks but remains high. This pause has allowed the proverbial baton to be carried by energy and industrial stocks in the 3rd quarter. The bond market is operating on the premise that the Federal Reserve is or is nearly done raising interest rates. That narrative about policy includes optimism for interest rate reductions in 2024. In order for the Fed to lower interest rates next year…inflation would likely need to have a 2% handle and slowing growth.

This part of the economic cycle is fraught with complex existential questions: What is a good unemployment rate? Do I want real estate prices to go up or down? Which is better, high money market rates or low mortgage rates? These are a few illustrations of the changes that are before us as we close out 2023. While our sentiment around these questions influences direction, ultimately capitalism and the potential reward one receives for taking risk prevails.

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The risk-reward dynamic inherent in a Capitalist economic construct has been the hallmark for much American success. The USA however is not immune to the policies of India or China and their impact on trade and global growth in both the short and long term. World politics, domestic elections and economic data are layered risks to the quintessential question around corporate earnings growth. The S&P 500 has projected earnings of ~$222 per share this year and ~$248 in 2024 or 11.7% growth according to Factset.

What seems like good luck or good news in terms of strong housing prices and high money market rates is nuanced depending on whether you are planting seeds, harvesting your crop or somewhere in between. So, like the Chinese parable of the Farmer, ***maybe*** the good and the bad are all mixed in together. We are always somewhere in between…therefore maintaining discipline toward valuations, momentum trends and traditional guideposts for when to deploy, protect or trade capital remain paramount in our stewardship of your assets.

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