HILGER
WEALTH STEWARDSHIP OF
RAYMOND JAMES®

October 3, 2023

Dear Friends,

As we close September, we finish what is typically one of the weakest months for the equity markets. This year's September swoon left the US equity markets, as defined by the S&P 500 Index, down more than 5% from its peak in July, to close at 4288.05, yet still up 11.68% for the year. The recent retracement shouldn't have come as a surprise as it is hard to achieve market expansion when the Federal Reserve Board remains with a policy of fiscal conservatism.

Jerome Powell, Chairman of the Federal Reserve Board, made it clear at the most recent meeting, that we should expect higher rates for longer, suggesting that the current policy of the Fed is pause, not pivot. Earlier in the year many analysts felt that the inflation data provided a backdrop for a shift in Fed policy, but Powell's comments made it clear that the fight on inflation is not over.

It is important to keep in mind that the Fed can only do so much to fight inflation. In basic terms inflation is created when demand outstrips supply and prices are driven up. This can occur when the production of goods and services contract or when demand increases substantially. Both occurred post Covid when the world re-opened. Companies had stopped producing during the pandemic and afterwards consumers were eager to spend as they re-entered the world.

The focus of the Fed is to dampen demand through monetary policy. This is why they have raised short term interest rates as much as they have, to make it more expensive to borrow, which in turn reduces spending. Higher interest rates affect home buyers as the cost of new mortgages make home purchases more costly. Fewer new home sales generally mean fewer purchases of durable goods such as refrigerators, washers and dryers, and the like. Higher interest rates mean higher credit card rates and auto loans. These are just a few examples of how higher interest rates affect broad consumer spending.

As the Fed pauses here, they are giving time to evaluate what the impact of these rate increases are. Generally, there is a lag between rate increases and spending reductions. The Fed is also likely pausing to evaluate the continuing health of the banking system. Let us not forget the failure of Silicon Valley Bank earlier in the year and the impact that will make on bank policy. We also need to be cognizant that commercial office real estate is undergoing a significant decline in value as office occupancy has dropped due to the rise of remote work. We have yet to see the impact on bank balance sheets as higher interest rates are raising the cost of property while simultaneously income is falling due to lower occupancy.

In our opinion the pause is warranted as the Fed gathers more data before taking further action. Some analysts expect another small increase in December, but we are in the camp that the Fed will stay on hold until more data is gathered. In addition to concerns over Fed activity and the resulting impact on economic activity, we also need to stay aware of the many other issues that exist. These include the government shut down, the ongoing UAW strike, higher interest rates in Europe, falling property values in China, among other geopolitical and domestic issues.

There are certainly many issues that could affect the stock markets and economic growth. As investors, we need to evaluate these issues and make investment decisions that are designed to reach long term goals. It is important to stay focused on the long term and not get caught up in the “noise” that surrounds the day-to-day activity.

Investors have benefitted from the Fed actions. Those that stayed invested in the market have benefitted from the rebound we have seen in the S&P 500, and an even stronger rebound in the NASDAQ 100.

It is our opinion that 2024 presents a wide variety of opportunities for investors. We expect the Fed to remain restrictive, and that a change in the current interest rate policy will not occur until mid-to-late 2024. This presents an opportunity for both equity and fixed income investors.

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We expect the markets to continue the pattern we have witnessed the past several months, remaining range-bound, but with an upward bias.

Thank you for your trust!

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