MARKET COMMENTARY – November 1, 2023

Rhyming with the 1970's.

Last month, we struck an inspirational tone, discussing how incentives and human ingenuity provide outstanding opportunities for prosperity over the long haul. Given the constant drumbeat of negative news for nigh on four years, we thought the topic necessary. When viewed in the manner we suggested, natural and man-made calamities, while dreadful, might be regarded as opportunities by the rational investor.

Little did we know that within days of our commentary, a band of murderous fiends would commit despicable acts straight out of ancient history, setting up yet another military conflagration. And yet, even though the market has not reacted kindly to the news from Israel, we believe our discussion was but a month too soon. Humanity, the same force that caused much of the mess in which we currently wallow, can also channel the creative energy that tugs us free. As an aside, humanity's positive efforts can always be helped with a fair amount of humility, repentance, and prayer…

It is not just the recent acts of terror and their aftermath on which the market has fixated. It has also focused its frenetic energies on interest rates, selling both safe and risky bonds. In this way, the bond market is at last catching up with Federal Reserve commentary that has suggested rates will remain higher for longer in order to fight inflation. The bond market reaction is not really news in as much as it is an acknowledgement of the inevitable. The sell-off in bonds spilled into stocks for October, ensuring the start to the fourth quarter was rather unpleasant.

Nonetheless, corporate earnings are a source of sunlight breaking through the clouds. We have mentioned in past commentaries that the market has endured a prolonged earnings recession – that is, quarter after quarter of shrinking results. Most companies have now reported their 3Q numbers. Thus far, earnings are 2.7% higher than a year ago, a respectable inflection. Topline numbers, too, are improving. Year-over-year revenue growth is thus far 2.1% according to FactSet.

While neither the revenue nor the earnings growth metrics are record-breaking, they remain a testament to our thesis mentioned earlier. Companies are populated by humans who are enticed to improve results. Admittedly, some compensation schemes do better than others, but on the whole, employees and managers perform work to get paid. The work improves corporate results over time. Better results lead to higher stock prices and larger portfolios for investors.

But your portfolio certainly isn't larger today than it was a month ago.

Yet, we think the seeds being sown today will permit those individuals currently in retirement to experience less volatility in and higher incomes from their portfolios. The normalization of interest rates all along the maturity spectrum will allow retirees to produce a more predictable return through interest income than in the recent past. So, while it is absolutely true that higher rates might mean lower stock returns, it is also true that those same stocks might not need to return as much.

Think of it this way. When interest rates are 1%, stocks need to return 10% for an investor to have a mid-single digit return overall. However, when bond rates are 6%, investors don't need stocks to do as much lifting to get a fair return.

Finally, we return to something we've mentioned in this commentary over the previous couple of years. We may be in a period that is reminiscent of the tumultuous decade of the 1970s. Wars in the Middle East, labor unrest, economic stagnation, and resurgent Communist foes are just a few items that rhyme with the decade of this writer's birth. Plus, we have new ingredients in the economic soup this time. According to JP Morgan economists, ALL excess COVID savings are gone for the middle class. Furthermore, the bottom 40% of wage-earners are now poorer from a wealth perspective than in 2019. How's that inflation treating you?

All is not lost, however. Let us remember that out of the 120 months that made up the decade of the '70s, 99 of them were spent in a bull market. You read that right. For 82.5% of the period, in what at the time was the worst decade economically since the Great Depression, the market was chugging ahead.

Proof once again that patience while adhering to a plan pays off.

Stirling Bridge Wealth Partners, LLC is fortunate to count many of you as clients. In the good times and bad, we remain committed to providing customized investment solutions and robust financial planning wrapped in a package of exceptional service. We thank each of you for your dedication to us and for your trust.

Sincerely
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