

October 2023



THE CAPSTONE QUARTERLY

Happy Fall! We are excited to have completed the Schwab transition with our advisory clients and are looking forward to all that this company has to offer. In this newsletter, Bryce gives an overview of the government shutdown and Casey provides a recap of our markets and the economy over the last quarter. We've added a few new team members to Capstone. Check out the ending of our newsletter to hear a little more about them.

BRYCE'S POINT OF VIEW

Bryce Pease, CFP®

Government Shutdown - averted!



Without any interventions, on September 30th Congress would have hit its deadline to fund the federal government for the fiscal year 2024. Given how deep political divisions run in Congress, it was hard for them to compromise on a deal. During a shutdown, each federal agency must halt all its non-essential functions. (More on that in a moment.)

Whenever Congress authorizes a law, the government must spend money to enact it. But sometimes, the authorization doesn't contain provisions to fund the law. A second piece of legislation, known as an appropriations bill, is required. This is where Congress separately appropriates money specifically for the new law.

These appropriations must be renewed - usually every year - for the law to remain funded. This is what's known as discretionary spending because Congress decides upon its own discretion whether to continue funding the law.

Over the weekend, Congress narrowly averted a government shutdown by approving a stopgap plan to keep the federal government open until mid-November. Sadly, this is not an uncommon occurrence for congress to kick the can down the road. This temporary spending bill that funds the government until a specified date is essentially a way for Congress to buy itself more time.

I said before that during a shutdown, federal agencies must halt all their non-essential functions. Basically, this means that many federal employees would be told not to show up for work. This can lead to delays in many

government services like defense spending, national parks, food safety, transportation, passport applications, and much more.

Now, you'll notice that I said non-essential functions. Some services, which are simply too vital to ever stop operating, will continue. Think air traffic control. Law enforcement. Forest Service firefighting. Much of the national Weather Service. You get the idea. However, it should be noted that many of the people who do these jobs would not be paid during a shutdown.

Some government operations, meanwhile, fall under the umbrella of mandatory spending. These are for certain laws and programs that are not required to be renewed annually. (Think Social Security benefits, Medicare, and Medicaid.) These programs will continue operating during a shutdown. However, many of the federal employees who oversee these programs would be sent home. As a result, there would be delays in helping citizens who need to interact with these services in some way.

The stopgap bill that was passed on Saturday is only a temporary solution. The House and Senate will likely rekindle their spending fight and if an agreement isn't made by mid-November, the government will be facing another shutdown threat.

Typically, shutdowns don't last for very long. Many shutdowns, in fact, only last for a day or two. But sometimes, shutdowns can drag on for weeks. In 2013, for example, we experienced a 16-day shutdown.¹ From December 2018 through January 2019, the government shut down for 35 days.¹ (Although this was technically a partial shutdown.)

Shutdowns aren't fun for anyone. Typically, however, they tend to have only a minor impact on the overall economy. The last major shutdown led to roughly 0.2% lower economic growth.² (That's about \$8 billion in lost growth.) This time around, some economists are predicting a 0.2% reduction in GDP growth for each week the shutdown lasts.²

Shutdowns usually don't have that big of an effect on the markets, either. Data suggests that the S&P 500 has fallen "an average of 0.4% in the week before a shutdown and gained a total of 0.1% over the length of all shutdowns since 1976."² This isn't surprising. The markets are driven by many factors. Important as it is, a shutdown is only one of them. Quite frankly, it's rare for just one event to have a lasting impact on stocks, even if media headlines suggest otherwise.

That said, our economy is in a tricky period right now. Persistent inflation has led to rising interest rates, which has put everyone on watch for a potential recession. So far, a strong labor market and solid consumer spending have staved off an economic decline. But adding anything negative to the mix just causes uncertainty...and uncertainty often leads to market volatility. While history suggests shutdowns aren't a major problem for investors, it's important we remain alert in the weeks ahead. As you know, past performance is no guarantee of future results!

CASEY'S CORNER

Casey Morris, CFP®



After a positive summer season, the markets reversed course and the S&P 500 finished down slightly for the month of August. As of this writing, the S&P 500 is also down slightly further for the month of September.

While inflation has continued to trend lower, it did see a slight uptick in July. At the end of July, the Federal Reserve announced a 0.25% interest rate hike, and in September they decided to hold interest rates steady. The Feds seem to feel that the war against inflation is not over and have hinted that future rate hikes may be in our future to quell inflation.

In addition to the inflation/interest rate situation, we're also watching China, where recent economic data has been concerning. The world's second largest economy is experiencing a significant slowdown in both consumer spending and in real estate. Given how many companies - including here in the U.S. - rely on China for both supplies and for revenue, economic waves there can have a ripple effect on our economy here.

To many, this isn't really a surprise that China is experiencing this slowdown. If you have been our client for a while, you have likely heard us speaking about demographics. Demographics are statistics that describe populations and their characteristics. For example, demographic analysis is the study of population-based factors such as age, race, and sex. China has an aging (and shrinking) population. The crisis has been decades in the making when China introduced the one-child policy in the 1970's. With an aging workforce, reduced consumer spending, and less demand for housing there could be a threat to global brands that depend on sales of products to the Chinese residents.

Did you know?

According to the U.S. Bureau of Engraving and Printing, a dollar bill can be folded 4,000 times before it will tear. That's because banknotes aren't actually made of paper, but a blend of 75% cotton and 25% linen combined with tough synthetic fibers.

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Market Recap

Back to our domestic markets - the trifecta of inflation, jobs, and interest rates will likely continue to be the dominant factors in the markets for some time now. Depending on market direction from here, we're ready to increase or reduce our stock holdings. We have erred on the side of being too cautious this year and are eager to participate in the next rally. We keep coming back to some advice I received early in my career. "Sometimes it's not return on your money, it's return of your money that counts".

FINALLY...

You may have heard some new voices answer the phone when calling into our office. We are pleased to welcome some new additions to the team! Alyssa Hosford joined us during the beginning of August, taking over for our last Administrative Assistant, Michael. Alyssa graduated from Cal State Fullerton with a Bachelor's degree in Communications. She is hard-working and responsible with her work, doing her best to assist with the day-to-day office procedures.

We are also delighted to welcome Adam Lopez to the team. Adam also joined the company in the beginning of August as a Sales & Marketing Assistant. He is a Business major enrolled at Cal State Fullerton and is currently completing his third year in college. He is very driven and goal oriented.

We are very excited to welcome both of them to our family at Capstone Pacific. If you happen to catch either Alyssa or Adam on the phone when calling in, please help us welcome them to the team!

Sincerely,

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P.S. If you ever run across anyone who could use our services or is unhappy with their current adviser, we always appreciate it when you pass on our name.

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¹ "Congress has long struggled to pass spending bills on time," Pew Research Center, <https://www.pewresearch.org/shortreads/2023/09/13/congress-has-long-struggled-to-pass-pending-bills-on-time/>.

² "Analysis: Potential US government shutdown could dent investor confidence," Reuters, <https://www.reuters.com/markets/us/potential-usgovernment-shutdown-could-dent-investor-confidence-2023-09-08/>