While inflation numbers continue lower (core PCE, the Feds preferred gauge – which excludes volatile food and energy prices), there are a multitude of factors that will in all probability keep the Fed on pace for one more rate hike before year end. The government shutdown has been averted for the moment, with funding through mid- November. Several spending measures – and the removal of other spending was enough to satisfy both parties. At odds are border funding and additional aid for Ukraine, certain to be contentious and likely co-dependent on passage during the next funding standoff.

Third quarter 2023 earnings reporting period will soon be underway. A decline of 1.0% year-over-year is expected for upcoming 3Q23 earnings reports (S&P Capital IQ consensus estimates). This quarter is expected to be the final of four consecutive year over year declines in S&P 500 operating results – a tough extended period by any measure. 4Q23 estimates indicate an 8.2% increase, with a full year 2024 perhaps 11.9% after a flat 2023. The S&P Midcap 400's earnings per share EPS is seen falling 11.8% and then rising 14.3%, while the S&P Small Cap 600 should drop 11.1%, before surging 21.7%. Current equity prices factor in earnings per share estimates for the next 6 to 9 months. Projections are nothing more than estimates, and utilized in valuation models.

Holiday sales are expected to rise 3% this year to approximately $1 trillion. With the unemployment rate below 4%, holiday spending should be strong despite continued inflation, tight monetary policy, and the end of the pandemic financial assistance programs. While inflation is slowing in pace, the consumer is painfully aware of prices in absolute terms relative to what had been a ten year period of stable prices leading up to the pandemic. Consumer confidence is low, primarily driven by costs for fuel/ vehicles and groceries. Some inputs such as supply chain issues have largely resolved. That said, labor costs for many goods and services have moved up, likely leading to permanent price increases.

A few words on fixed income and corporate bonds. It appears by many measures that we are near peak rates on the short end of the yield curve (3 month US Treasury Bills). With inflation generally cooling, short term yields are largely expected to fall for the remainder of 2023 and into 2024. Currently, the Fed's stance of "higher rates for longer" is increasing yields for intermediate and long term bonds. There are various factors that determine the yield curve. Overall, we may be near peak rates for both short and intermediate yields. This may be an ideal time to lock in yields for investment grade corporate bonds – using a laddering approach to buy varying maturities to lock in current rates for longer periods. Some of these rates are looking very attractive relative to CDs, and have the added benefit of an option to sell before maturity for a profit if rates fall (the probable scenario). A complexity that reaches beyond the confines of this preview letter, I am and will be reaching out to account holders whose objectives are in line with an increased allocation to fixed income. Yields have not been at current levels since 2008. Waiting for peak rates on the mid and longer dated yields is the best way to buy bonds – and I believe we are at that point for the first time in 15 years.

With projected falling rates in 2024 and 2025, and many projecting a soft landing for the economy, am bullish on equity prices over the mid to long term. Short term volatility will always provide challenges and opportunities. Please call or email anytime to schedule a review of holdings/ allocation strategies or related items. Thank you.

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