Stirling Bridge
Wealth Partners, LLC

MARKET COMMENTARY – March 1, 2023

There is more ado to interpret interpretations than to interpret the things... ~Montaigne

What was true in the 1500s appears as true today. Folks delight in commenting upon one another more than unraveling truths in data or natural phenomena alike. We write books about books. Politicians remark on remarks made by other politicians. Even the hallowed halls of science are not immune as researchers often critique the critiques of fellow researchers rather than performing research on real things.

And so it goes with those of us in the financial realm. Jamie Dimon, Janet Yellen, or Warren Buffet each make statements on the others' statements. It all makes wonderful headlines and sells many billions of dollars of per-click advertising.

However, let us spend a few moments looking at the latest data and their trends. Then let us interpret the actual things. Perhaps if we stay focused, we may divine something more akin to the truth of our current situation and where we might be heading.

Inflation is still too high. However, it has been heading lower from the peak reached in 2022. As long as the Federal Reserve remains on the case, no matter how imperfectly, they will win the battle. Higher rates will eventually kill inflation.

But history demonstrates that the path to price stability is not always a direct one. Some months show temporary spikes or troughs. January appears to have been one of those unexpected spikes as inflation, retail sales, and employment numbers all surprised to the upside. As a result of those ebullient numbers, the rally that had begun the year, faded in February. Market participants realized the Fed will have to continue rate increases and will not be able to reverse course anytime soon.

Since the forces driving inflation came to dominate our landscape, a vigilant Fed has been and remains our forecast. We base this prediction on history and human nature.

But our astute readers might ask how high must interest rates go to wash away inflation? Ten percent? Fifteen?

While there are frightfully many similarities to the 1970s today, we don't think such lofty rates are required this go 'round. We base this on mere observation. Short term treasuries are currently around 5%. That by itself has helped slow activity from the frothiest days. Also, each time mortgage rates hit 7% in the past year, home sales immediately plummeted, demonstrating where the absolute peak of rates might lie.

Stirling Bridge
Wealth Partners, LLC

Barring exogenous factors such as expanding wars, we expect the Fed to march on with quarter or half point increases at the next two or three meetings. At that point, we expect them to pause – NOT REVERSE. We also expect inflation to run a little hotter than any of us would like – say in the 4% range – as global policies (energy, trade, etc.) remain in place that foster such price hikes.

If the above scenario plays out, markets ought to remain choppy in the first half of this year. Participants need to cobble contradictory data points into a cohesive story. In doing so, volatility results. We would not be in the least bit surprised if we re-test or even blow through the lows set in 2022. Yet, 2023 as a whole could still wind up being a decent year for investors. Coupon payments on bonds are now high enough to counteract most of the price drag from shifting rates. Stocks, looking forward, could see a recovery materializing in 2024 and end this year modestly positive.

Before wrapping up, we must point out an assumption we made a second ago. We assumed the Fed would be at peace with pausing their hikes in the face of elevated 4% inflation. This would go decidedly against their 2% goal for inflation. In this case, we think ignoring the long-stated target is appropriate. We estimate that the Fed's previous actions accounted for a third of the inflation we've experienced. Fiscal policies from governments caused the other two thirds. A Fed pause might allow the inflationary pressures from those outside policies time to work out on their own.

However, if the Fed remains committed to fighting inflation down to 2%, they may have to hike higher, for longer than we currently forecast. After all, they'd be in a fight, not only against the inflation they helped cause in the past with loose monetary policy, but also against the inflation caused by excess spending and borrowing by our bosom friends in the Federal government.

So, risks abound. Yet, we think the data show a reasonable path for recovery and sustained growth. It remains to be seen if our elite few will interpret the data in the same manner. From there, we can all jump on the bandwagon of interpreting their interpretations.

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
Jason Born, CFA
President

1246 County Road Q, McClure, OH 43534 P: 419-832-1111
www.stirlingbridgewealthpartners.com F: 419-832-1211