Stirling Bridge
Wealth Partners, LLC

MARKET COMMENTARY – March 1, 2024

Alone I walked the ocean strand;
A pearly shell was in my hand;
I stooped and wrote upon the sand
My name – the year – the day…
A wave came rolling high and fast,
And washed my lines away. ~ Hannah Flagg Gould

The daughter of a Revolutionary War veteran, Hannah Gould wrote patriotic verses in her early days as a poet. Yet, over her 50-year writing career, she published numerous works on a vast array of topics, always with a spritely, gentle touch. Her collected poems sold very well, even used as a means of recitation by school children.

The lines above come from her best-known poem, titled "A Name in the Sand," which explores how insignificant are man's accomplishments when compared to the power of an eternal Creator.

We believe Miss Gould's sentiments may represent the concerns of many of our clients these days. Will a second wave of inflation roll upon our shores, washing away much of the recent market rally?

In November 2023, we discussed the similarities between today and the 1970s. Hot wars, energy crises, shipping disruptions, labor unrest, and deep deficit spending to name just a few. We came to the conclusion that while inflation was far from beaten and geopolitical solutions seemed out of reach, corporate results would be enough to brighten the economic mood and therefore improve market performance. Fortunately, in the short run, things have played out in just such a way.

Two months ago, investors had anticipated seven rate cuts from the Federal Reserve in 2024, a number we viewed as totally unrealistic given the inflationary frictions in the global economy. The January 2024 inflation data reported in February ticked higher than expected, confirming our supposition and spooking investors. Rate cut expectations have now settled to a more reasonable level of two.

Yet, despite tempered rate-cutting expectations, the market continues to bounce around all-time highs. Is the market being unrealistic? Is it pricing in, not a Goldilocks economy, but rather a Platinum-locks economy? Is it setting itself up for a fall?

While the market falls significantly at some point every year, we do not think it is perilously overpriced.

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

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Barring any new exogenous factors, inflation will likely run hotter than the 2% target of the Fed. Perhaps 3-4% for the time being as long as our government spends outrageous sums domestically and internationally by way of debt issuance. Layer in the geopolitical turmoil mentioned previously and the reader may follow our logic. In spite of this higher-than-desirable inflation, we think corporations will find ways to thrive, to become more efficient with technology, and to grow revenues and the bottom line.

Also, bonds will do more of the heavy lifting going forward than they've done in the previous decade. Five percent rates propel returns and protect volatile account balances more than 0.25% interest rates. It is for these reasons we encourage our clients who require their portfolios to provide current spending money to own bonds.

Switching to the election for a moment. Historically, the market declines modestly in the month before election day then rallies a couple percentage points into the end of the year. The economic indicators with the most predictive power for presidential elections are stock performance and inflation (high returns are better for the incumbent, high inflation is bad for the incumbent). Those indicators are pointing in opposite directions today, but the readings will become clearer as the year marches on. Our point is that with a pair of candidates few find inspiring, the race could go either way, with little change in economic policy.

One final, cautionary word on inflation – we promise. There is a risk that uncontrolled Federal spending will "come home to roost." At some point – perhaps one year or one decade from now – investors will demand to see fiscal restraint on our part, or they will demand significantly higher interest rates on our government's borrowing. Then, indeed, we would be at risk to receive Miss Gould's inflationary wave that will wash our lines away. In the meantime, let us be the leaders who will demonstrate fiscal restraint in our households and local governments.

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

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