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**What Mattered This Week and How Does It Impact the Economy and Markets?**

With the semi-annual time change we experience nighttime coming on sooner then we like, but that also means daylight arrives sooner as well. With Halloween behind us and Thanksgiving and Christmas ahead, there is much to look forward too. I wish you all a happy holiday season.

If you were watching the markets last week you may have noticed that stocks had a pretty nice run. The broad equity indexes were up between 5% and 7%. What gives? The big news was that the Federal Reserve bank elected to not raise its Federal Funds interest rate for the second consecutive time. Further, the statement issued by the Board acknowledged that the runup in long-term interest rates is “tightening financial and credit conditions” implying that current conditions may substitute for future policy rate hikes.

To be sure, the Federal Reserve re-iterated that it remains open to future rate hikes if warranted by the data. However, most observers interpret the Fed speak to mean that absent a reversal in current declining inflation trends, the Federal Reserve will likely keep rates stable for at least the next few months. Combine this with recent economic data indicating that growth is slowing but not collapsing and the stage is set for the Federal Reserve to pull off what it almost never accomplishes, a soft landing (i.e., no recession because of interest rate increases).

The markets abhor uncertainty and the more there is of it, the more volatile the markets are. However, the reverse is true as well. With the Federal Reserve clearly near or at the end of its rate hiking cycle, the markets are beginning to look forward to interest rates dropping sometime next year. This will be positive for both stocks and bonds.

Overall, there is much to be positive about. Publicly traded companies are almost through reporting third-quarter results with both revenue and earnings gains beating expectations. Third quarter GDP came in strong. Even if you strip out inventory building and government spending the economy grew at almost a 3% annualized rate. Labor markets are beginning to soften which should reduce pressure on wages. Risks remain in the form of unexpected upticks in inflation, erroneous Federal Reserve policy responses and unknowable future geopolitical events. Nevertheless, uncertainty regarding the Federal Reserve interest rate policy and the economy is beginning to be resolved, which should reduce volatility and provide a strong base for the markets to broaden and move up from.

My recommendation is to remain confident in the economy and to expect the markets to reflect that reality. I have attached a short PDF by Commonwealths’ Chief Investment Officer, Brad MacMillan. If you have a few minutes, please take some time to read another viewpoint.

I am always available to you via phone, zoom conference or in person. I look forward to talking with you over the next few weeks. If you have any questions or if we can be of any help, please do not hesitate to contact Linda or me.

*Certain sections of this commentary contain forward-looking statements that are based on our reasonable expectations, estimates, projections, and assumptions. Forward-looking statements are not guarantees of future performance and involve certain risks and uncertainties, which are difficult to predict. Past performance is not indicative of future results.*

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