CWP | PRIVATE WEALTH MANAGEMENT

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Monthly Market Commentary

Welcome to Fall! Fall is one of the most wonderful times of the year. For those residing in the Midwest, the leaves are starting to change colors, the mornings are brisk, and its comfortable weather to be outside. Not to mention, football is in full swing! We also look forward to the spooky season at the end of the month! As always, we wish you continued health and happiness!

Markets closed the third quarter on a positive note despite multiple bouts of volatility along the way with both equities and bonds posting positive returns in the quarter. Momentum in the markets has slowed a bit while breadth across markets has improved to healthy levels over this time. Finally, after almost two years of tightening monetary policy, the FED cut interest rates by 50 basis points to kickstart an easing cycle as growth and inflation have both moderated but remain above trend. With the broader economy still in expansion and a shift in monetary policy to an easing bias, commodities started to reflate again, and it must be seen if it sustains. Market expectations for an aggressive rate cut cycle this time around are too optimistic and are not coherent with the underlying economy unless something changes meaningfully. We expect further rate cuts but believe the neutral rate in this cycle to be much higher than seen in the recent past where FED funds rates were cut to near zero. The FED will have to thread the needle carefully going forward in order not to let inflation reignite while balancing the labor market as risks on both sides of their mandate are elevated.

Fundamentally, things have been slow on the manufacturing side for a while now but most recently the jobs side has started to show some weakness. On the other hand, consumption and services remain resilient. The latest reading on ISM Manufacturing was flat at 47.2 vs prior month and remains in contraction for almost 2 years now. Despite the slowdown in the labor market, employment remains healthy with the unemployment rate around 4.2%. However, markets were fearful that restrictive policy any longer may hamper that, considering the lags of monetary transmission through the economy which had the FED react with their rate cut. Finally, with the elections just around the corner, some elevated volatility should not be ruled out in the near term. Geopolitical tensions in the middle east, Russia, and Ukraine persist and continue to remain a risk for the foreseeable future until some sort of resolution is reached. Having flexibility remains the key as opportunities present in the final stretch of the year.