Email Body 10/4/2023

**What is Happening in the Economy and Where is it Heading?**

It sure feels like fall has arrived in San Diego. From my perspective the sudden turn to coolish weather in the evening was an abrupt change from the heat we experienced earlier. I guess I shouldn’t complain now that my electricity bill will start going down. Also, considering the rest of the country I guess we can’t complain about the weather too much.

September turned out to be a relatively volatile month in the markets. The primary factor unsurprisingly turned out to be the Federal Reserve bank and Chairman Jerome Powell. While Powell et al decided to not raise interest rates in September, they were particularly adamant that rates would stay higher for longer than the markets have been signaling. Given this stance the bond markets backed up and long-term interest rates rose about 0.50% which caused the stock market to throw a fit at the end of September. Throw in the UAW strike, Healthcare workers strike, and a possible government shut down and you have a recipe for fear that a recession is around the corner with con-commitment market downturn. At least that is what the U.S. media says.

The reality is that the economy is continuing to grow with strong employment numbers and rising personal incomes fueling increased consumer spending. Core inflation at both the producer and consumer levels continues to moderate. Manufacturing production is reversing trend and increasing. Durable goods orders came in stronger than expected. Housing sales and starts declined in August but building permits increased significantly indicating a new surge in construction coming on-line soon. Unemployment is still sub-4.00% but look for that to change if the strikes mentioned above persist. Consumer confidence is down slightly which is no surprise given current headlines, but still in positive territory.

At its core, the stock market reflects economic expectations over the next six to nine months and prices accordingly. With economic fundamentals still in good shape and reasonably expected to stay that way for the next year and considering that the Federal Reserve is likely at the end of its rate hiking regime, I think the stock and bond markets are likely well positioned for future gains. There can be no guarantees about the short-term as risks always remain including inflation resurgence and geopolitical events (i.e. Ukraine, China, etc.). The short-term always reflects current news and fears whether well-founded or not. Longer-term reflects economic reality and in my opinion that reality looks positive over the next three to five years.

My recommendation is to remain confident in the economy and to expect the markets to ultimately reflect that reality. Below is a link to a short video by Commonwealths Chief Investment Officer, Brad MacMillan. Please take the time to view this 3:37 minute video to hear his take on the markets. Go to <https://vimeo.com/870410866>.

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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