

GUIDANCE WEALTH, LLC

PRIVATE CLIENT NEWSLETTER

For the Calendar Quarter Ending September 30, 2024

At the start of this year, the Fed had hinted at 5-7 Interest Rate Cuts...and so far we received just 1.

The Federal Reserve Board Chairman, Jerome Powell, after previously suggesting there we could see several rate cuts this year, only recently authorized one rate reduction of 0.50%. Markets reacted with a bit of a yawn, and economists continued to argue whether it was a sign that there was still concern about *true* inflation data. Regardless, the election is only days away, so it is doubtful there will be any further moves until the dust settles.

We all know that the cost of everything has continued to increase at a pace we have not seen in a generation.

Although for now, inflation seems to be all but forgotten in the news - *yet not by all of us who are living it*. There is so much that affects the rising costs of goods and services, and the various inflationary pressures tend to feed on each other. Initially, much of it begins with higher fuel prices, which increase the cost of food production at every stage: plowing, planting, application of necessary chemicals, powered irrigation, harvesting, shipping to its final preparation and then shipping the packaged food to various markets across the country. This complex story is true not only for food, but for all goods, materials and services we use, at every level of production and distribution. As we discussed in a previous newsletter, the reported cost of housing may have increased about 25%, while the average true cost of owning a home (with the combination of increased mortgage rates, property taxes, insurance and required upkeep and maintenance) is estimated to have increased by approximately 80% or more. This may sound exaggerated, but most construction, plumbing, electrical, painting, remodeling and landscaping prices have increased substantially – almost double since 2020. The same is true for the automotive industry, with the increased overall costs of owning, insuring, maintaining or repairing, and operating a vehicle. *The reality is we are all either willing - or feel we have no choice - to pay the higher prices, which ultimately increases the money supply in the system, still chasing fewer available goods and services, which then continues to increase inflation. And then, the cost of borrowing money to help pay for all of our inflated essential spending makes it even tougher for everyone. In truth, it is only when people seriously curtail spending that helps reduce inflationary pressures. However, reduction in consumer spending is also primarily what causes recessions, which is something the Federal Reserve is trying desperately to avoid.*

Only a few clients have been expressing any serious concern about the stability of markets after the election.

It is interesting that as much frustration as we are hearing from everyone about the direction of our *nation*, the broader investment markets don't seem to be overly concerned. In other words, there does not seem to be a palpable sense of panic among investors - at least not at this time, anyway. Although we have had discussions with clients about slightly reducing investment risk levels within their accounts, as of right now, any concerns which have been voiced are minor.

It could be very likely that some point on November 6, we wake up to find that we still have a "Divided Government".

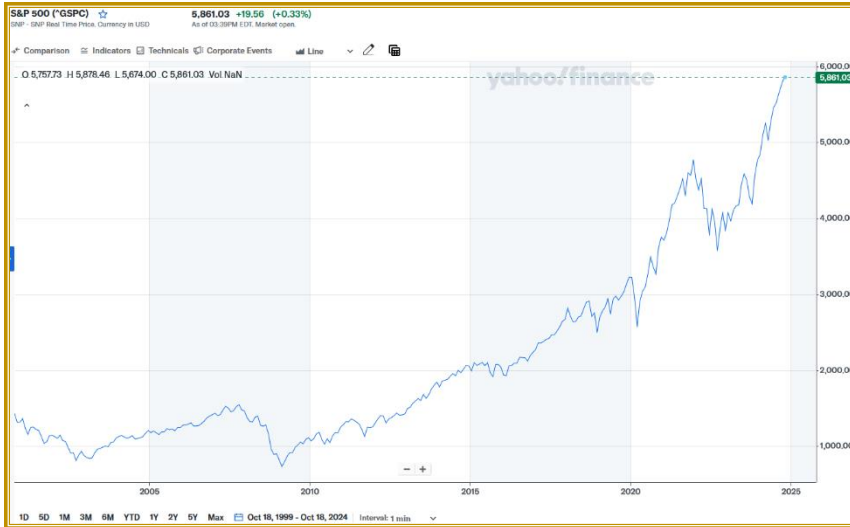
This means different parties control the House, the Senate and the Presidency. At this time, Republicans appear confident they can retain control of the House of Representatives, and the Senate may remain in Democrat control, albeit with a very slim majority. Therefore, regardless of whoever wins the Presidency, not much of any substance will likely make it through the legislative processes. That said, we all know that Presidents of late have tried to circumvent the normal legislative process with Executive Orders (hoping the courts don't block them from their objectives), but major legislation will need to be carefully crafted in order to be more easily passed by both houses and signed into law by the President.

The biggest issue will be tax law, since the "Tax Cuts and Jobs Act" (aka - Trump Tax Cuts) will expire in December 2025.

The current tax laws and rates we have now are scheduled to "sunset" at the end of next year, which means an automatic tax increase for almost everyone and all businesses – unless Congress and the President can all agree on either keeping the current laws in place - or modifying them in a way that the slim majorities of lawmakers can vote "Aye". Even if the House and Senate can agree on maintaining or even reducing the current tax rates, the Democratic Presidential candidate has indicated she fully intends to increase our current tax rates. So, for the economy, there is a lot riding on this election.

In the meantime, equity investment markets continue to outperform expectations, with new record highs.

We provide a significant amount of advisory work to Employer Retirement Plans, so we believe that much of this continued growth can be attributed to the continuous flows of money into the markets through the vast number of 401(k)/403(b)/SIMPLE/SEP and other qualified retirement plans established by employers around the country. The other fact is that much, if not the majority, of the money deferred will be invested into equity (stock) mutual funds, starting with Domestic (U.S.) Equities and, more often than not, is the Standard & Poor's 500 Index, affectionately known as the S&P 500 – which, in many cases, is referred to simply as “The Market”. *It is also critical to understand how the broader equity markets (smaller domestic companies and foreign investments) and fixed income holdings are performing, because very few are invested solely in the S&P 500.*



While this trend is good news for investors seeking greater growth in their accounts, investors who are already retired or may be getting closer to retirement are seeking more foreseeable and sustainable levels of income from their retirement accounts. Money Markets, Annuities, CD and newer issue Bond interest rates have increased dramatically since the beginning of 2022. Although we have yet to see a complete recovery of some bond holdings, any additional Fed rate reductions should bode well for further increases in bond values.

If you are invested in a more conservative portfolio with higher percentages of bond holdings, note your performance over the past 1-Year period, which should indicate a significant improvement in your account valuation from the 18-24 months prior to that. We expect that another rate cut (or a couple of cuts) by the Federal Reserve should help to continue that positive trend. We don't expect to see bank interest rates at zero, or mortgage rates below 3% again soon, but a mortgage rate of somewhere between 4-6% sounds like the appropriate balance of lender's risk and borrower's 'skin in the game'. In time, things will sort themselves out.

Getting Back to the Future

The next few days/months should be very interesting from a historical standpoint. There are massive amounts being spent by both sides trying to convince voters that their way is best. From a market perspective, history has shown that a “divided government” may keep market volatility under control, since neither party can easily enact their preferred policies. Despite so many of our citizens demanding immediate change - in *their* favor, markets favor stability. Whatever the results, American businesses - and the various investment markets which provide their underpinnings of financial support - eventually seem to find a way to produce, provide and profit.

Our mission at Guidance Wealth is to be a reliable source of direction for our clients to help them improve the quality of their investments and their lives.

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