AUGUST 2023

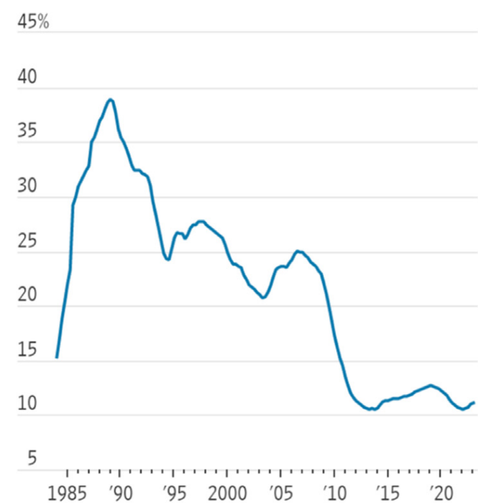
"Don't fight the Fed."
- Marty Zweig

Timothy D. Hussar, CFA
Director of Investments

Tim is Director of Investments of WhartonHill Investment Advisors. He is also a Partner of the firm and member of the Investment Committee.

It is an age old axiom – "Don't fight the Fed." The theory, coined by Marty Zweig in his 1970 book "Winning on Wall Street" expanded on the term by noting that "the monetary climate - primarily the trend in interest rates and Federal Reserve policy - is the dominant factor in determining the stock market's major direction." [1] Indeed, interest rates have been the dominant risk factor over the last year, as they rose from 0.0% to 5.25% and disrupted stocks, bonds, and banks. And yet, while markets suffered in 2022, they have prospered in 2023, despite interest rates remaining high. The S&P 500 has returned 20% through the end of July thanks to the consumer keeping the U.S. economy afloat. [2] But isn't the consumer tapped out, due to high inflation and interest rates? In most economic cycles, they would be, but this cycle has been different because the consumer did not fight the Fed over the last decade, they worked with what was given to them and took advantage of zero percent interest rates.

Let us explain: after the 2008 financial crisis, the Federal Reserve took interest rates to zero and effectively held them at that level for the next decade. While this brought about challenges in the form of low bond yields and non-existent savings rates, it also provided a once in a lifetime opportunity for Americans to lock in their biggest liability – a mortgage – for multiple decades at a record low level. Not only did consumers lock in their mortgage rates, they also switched a significant portion of their liabilities from floating rate debt to fixed rate debt. The share of household debt that was floating rate went from over 30% in the 1990's, to over 20% in the early 2000's, to just 11% this year. The mega shift from floating to fixed, at record low levels means that even though the Fed's rate hiking campaign has been aggressive and has done a major part in blunting inflation, it hasn't sent the consumer into a tailspin. According to the Wall Street Journal, "Americans who refinanced their mortgages for a better rate since March 2020 have saved $42 billion on their monthly payments, Black Knight



AUGUST 2023

estimates.”[3] That extra $42 billion in savings accounts is now earning better interest rates and is able to help cushion the economy.

Also helping out the economy has been the strength of the jobs market. Through the month of July, the economy has added 1.8 million jobs and the unemployment rate has ranged from 3.4% to 3.7%, near 60-year lows. There are currently 1.55 jobs available for every person looking for a job.[4] While job gains are not as strong as they were in 2021, when the economy was rebounding from COVID shutdowns, it has been slow and steady, which is exactly what the Federal Reserve was hoping for in its efforts to cool the economy without sending it into a recession. By most accounts, the Fed has come a long way in trying to thread the needle for a soft landing – slowing the economy and inflation while still keeping the jobs market intact.

Looking forward, we are watching closely how the hiring environment changes as interest rates remain high and the lag effects of monetary policy run their course through the economy. The pivot from high interest rates (over 5%) to moderate interest rates (2-4%) seems to keep getting pushed further out into the future, as the Fed seems content to let rates remain above 5% until inflation gets to a 2-3% level. The longer rates stay above 5%, the greater likelihood there is that weakness will start to creep into different parts of the economy and affect the labor market. What remains the most prevalent issue for markets is if elevated rates produce a jump in the unemployment rate and when they do, how quickly the Federal Reserve will cut rates in response. As we navigate the investment landscape through the remainder of 2023 and into 2024, we are watching labor indicators most closely and will keep you informed of any changes we see fit to implement.

AUGUST 2023

Investment advice offered through IFPAdvisors, LLC, dba Independent Financial Partners (IFP), a Registered Investment Adviser. IFP and Wharton Hill Investment Advisors are not affiliated.

Past performance is no guarantee of future returns. Investors cannot invest directly in an index. Diversification and asset allocation do not guarantee returns or protect against losses. The information given herein is taken from sources that IFP Advisors, LLC, dba Independent Financial Partners (IFP), IFP Securities LLC, dba Independent Financial Partners (IFP), and its advisors believe to be reliable, but it is not guaranteed by us as to accuracy or completeness. This is for informational purposes only and in no event should be construed as an offer to sell or solicitation of an offer to buy any securities or products. Please consult your tax and/or legal advisor before implementing any tax and/or legal related strategies mentioned in this publication as IFP does not provide tax and/or legal advice. Opinions expressed are subject to change without notice and do not take into account the particular investment objectives, financial situation, or needs of individual investors.

1: Fortune - https://fortune.com/2022/05/10/investing-regime-change-stock-market-fed-put-end-of-free-money

2: Eaton Vance - https://www.eatonvance.com/media/5265.pdf

3: Wall Street Journal - https://www.wsj.com/articles/what-fed-hikes-much-of-americas-consumer-debt-is-still-riding-ultralow-rates-e10ab199

4: St Louis Fed Economic Data - https://fred.stlouisfed.org/series/JTSJOL