BARRETT CAPITAL PARTNERS

3rd Quarter 2023 **Newsletter #9**

	Q3	YTD
S&P 500 TOTAL RETURN	-3.3%	+13.5%
US AGGREGATE BOND TICKER: AGG	-4.8%	-4.4%

Our biggest fear is what we cannot see

Two years – No returns

The S&P 500 is about even over the last 24 months, while the Bond Index is down 19%. So, over the last two years, a balanced 60/40[1] portfolio is down around 8%. Earlier this year, the expectation from Wall Street was that the Federal Reserve would start cutting interest rates in mid-2024. The comments from the Fed in September did not support that expectation and pushed out any rate cuts to the end of 2024. Investors did not like that, and the market lost 5% in September.

Where do we go from here?

It all depends on if the Fed can lead the economy to the *soft landing* that almost nobody believed they could pull off. We continue to believe that it is the most likely outcome, but over the past 6 months we've been getting nervous about how high the Fed will raise rates. Every rate increase brings us closer to something breaking.

Recession – The expected outcome by many, although this expectation is losing steam among investors. If banks begin to show signs of increasing stress, the experiment is over. Our biggest fear is what we cannot see. Banks are an easy target to see, but what monsters lie under the surface?

Soft Landing – Maybe, just maybe, the Fed nails this experiment, sending unemployment to 5%, bringing inflation down to 2%, and somehow managing to avoid a recession. This is our *base case* scenario. Stocks have been pricing in a recession for a while now, so if we manage to avoid one, it should be positive for the market.

[1] A portfolio comprised of 60% equities, and 40% bonds.

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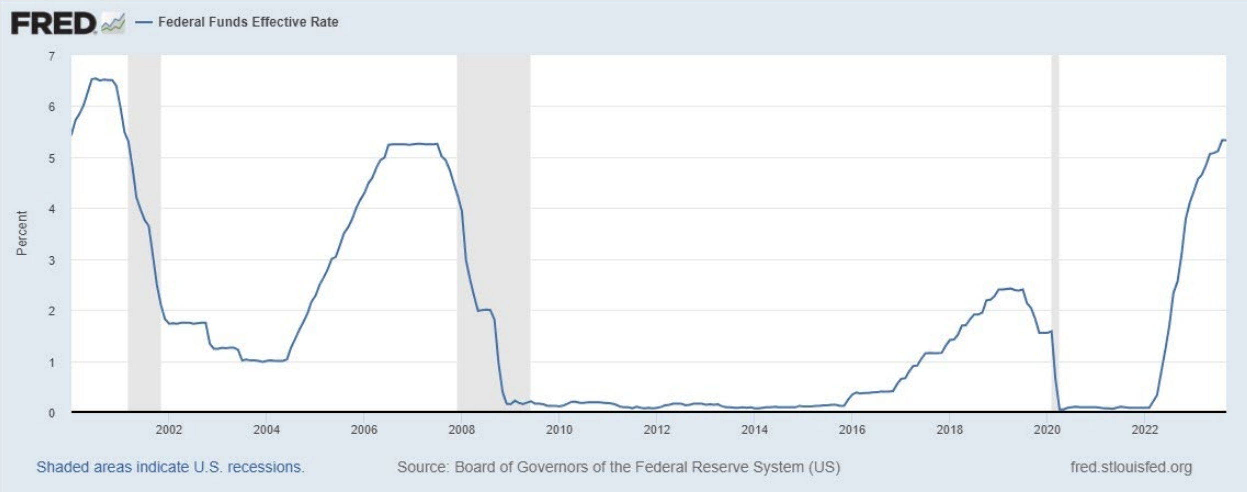
Higher rates are the new normal

We will probably look back years from now and realize that we saw generationally low interest rates in 2020 and 2021. "*Back in my day we had two-point-something mortgage rates…*"

Rates today are closing in on 8%!

We should all be prepared to live with higher rates as the new normal. They probably won't consistently be as high as 8%, but 2.8% mortgage rates are going to be a thing of the past. We'll likely normalize somewhere in the middle. 5-6% rates *just feel healthier* than the free money from the last few years.

During the financial crisis in '07-08, the Fed dropped the rate to 0%, and kept it below 1% for almost 9 years. They probably should have raised rates faster.



Insert Short Paragraph Here: Government Shutdown

From an investment standpoint, the possibility of a government shutdown does not matter. As of right now there is a short-term funding deal that brings us to the week before Thanksgiving. The government needs to be funded. Our representatives *have to* fund it, but that won't stop the worst of them from trying to get themselves on TV for a good soundbite[2].

[2] I would like some credit for the restraint I showed in this paragraph.

Waiting for something to happen – anything!

With the stock market essentially even over the last two years, investors are waiting to get a better view on the direction of the economy, and the direction that the Fed will take. Hopefully this all shakes out in the first and second quarters of 2024. At that point investors will be able to formulate a better game plan, because right now it is nearly impossible to model an economic scenario with any confidence. There are just too many variables to be sorted out.

Items of interest

- CD rates are as high as 5.5%.

- A CNBC poll shows 35% of employees with access to a 401(k) plan do not contribute to it. **Be the 65%.**

- The trial of Sam Bankman-Fried: The founder of failed cryptocurrency exchange FTX is on trial this month, accused of committing a LOT of crimes. The short of it is that he took client money that was *not his*, invested it in risky things like crypto and startups, paid celebs like Tom Brady[3] to help spread the word, and bought $30 million condos to live in. Oh, and clients *did not get their money back.* This should be pretty cut and dry. Let's see how the trial shakes out.

Enjoy the last few weeks of good weather, and get your skis tuned,

Patrick and Joe

[3] Tom Brady was reportedly paid $55 MILLION to do a couple ads.