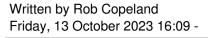
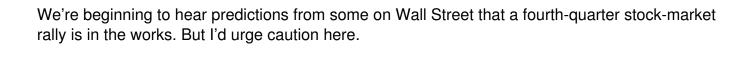
We're Not Out of the Woods





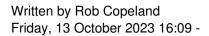
Optimists point out that since 1950, the S&P 500 index has risen in the fourth quarter 80% of the time. And they point to recent indications from the Federal Reserve, which has raised interest rates from nothing to 5.5% over the past year and a half, that the rate-hiking cycle may be over. That would be good news for stocks; while the S&P is still up 13% for the year, it's dropped more than 5% since the start of August. The rate hikes have been especially hard on tech stocks, as the NASDAQ has fallen 20% this year.

But trying to guess what the Fed will do is tricky; after all, many market watchers thought it would be cutting rates by now. But even if the rate hikes, which the Fed deployed to fight inflation, are over, my belief is that we're far from out of the woods.

The end of a rate-raising cycle doesn't necessarily translate into stronger results for companies. A lot of the effect of higher interest rates takes place a year or even two years after they're raised. This lag effect means there could be plenty of pain yet to come for the economy and for businesses.

The most obvious impact of higher interest rates can be seen in the housing market. Home

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sales have fallen sharply as a result of rising mortgage rates. The unemployment rate is low but has started to creep up, from 3.5% in July to 3.8% in September, and it's likely to continue rising.

A big worry is the fact that many companies loaded up on debt when interest rates were low. Much of that debt will have to be refinanced soon, at rates that could be triple those of the original debt. That will be a major headwind for earnings and thus for stock valuations.

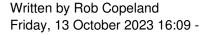
Furthermore, the Federal Reserve is predicting that consumer spending, which accounts for about 70% of the U.S. economy, is set to slow down markedly. That will be another big obstacle for corporate earnings.

And if and when companies' debt problems lead to a significant number of layoffs, those consumers will not only curtail their spending but will have trouble paying their mortgages. Consumers are already heavily in debt; total U.S. credit card debt recently passed \$1 trillion, and the average credit card interest rate is now more than 20%.

Then there are the conflicts in Ukraine and the Middle East. The latter could result in higher oil prices, and both present a real danger of spreading to involve additional countries. The current dysfunction in Washington, and next year's looming election are additional wildcards.

I always advise clients to stay in the stock market for the long run. Ultimately, it's the best way to earn the kinds of returns you're going to need to retire comfortably and meet other goals. But in the short term, we're likely in for some instability.

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My advice to investors right now is to be very selective about what you buy, to avoid taking big swings on risky stocks, and to make sure your portfolio contains companies that are strong enough to make it through some turbulence. Remember that there will be opportunities to buy hard-hit, discounted stocks once the sharp rise in interest rates fully works its way through the economy.

In times like these, an experienced investment advisor can provide good market perspective, help evaluate the strength of your portfolio and make sure you're well positioned for when the market eventually does rebound. Don't hesitate to reach out to us.