

Leigh Baldwin & Co.

Investment Brokerage

As the Olympics play out in Paris this summer, we can witness extremely gifted athletes excel in a countless number of events. As usual, special attention is given to the high-flying gymnasts that can stick incredible landings. On Wall Street, the most important landing of late is whether the economy can have the elusive “soft-landing” after a stretch of Fed tightening and higher interest rates. With the economy only adding 114,000 jobs in July and the unemployment rate moving up to 4.3% (after bottoming at 3.4% last year), there has been some recent concern for the economy, reflected by a relatively short, but dramatic, sell-off to begin August.

We believe that the soft-landing scenario is still intact as the economy continues to prove to be quite resilient. First, profit reporting from the previous quarter has been strong, with earnings up about 10.9% from a year ago. This gain in earnings appears to be driven by margin expansion as opposed to revenue growth. Also, according to JPMorgan, 8 out of 11 sectors are expected to contribute to this earnings growth, led once again by AI related capex. Finally, the Fed has indicated that they are ready to lower interest rates beginning in September, which has historically given support to equity prices.

On a cautionary note, inflation looks to be rather persistent with several initiatives that could promote higher costs. The deglobalization of industry, bringing manufacturing back home, typically done using aggressive tariffs, may be inflationary. Transforming our energy and infrastructure could also be seen as adding costs for the nation. Inflation is an insidious tax on the middle and lower classes, and there has been some cutting back from consumers. Recent earnings from McDonalds, Starbucks, and Chipotle for example, indicate that people are budgeting more and that may eventually affect the overall economy.

Seven months into the year financial markets continue to stride higher led by the Nasdaq (+16%) and the S&P 500 (+15%). In general, fixed income is positive for the year now, if just barely.

As we deal with many geopolitical headlines in the weeks and months to come, it is as important as ever that investors establish a game plan to not only meet and exceed personal goals, but also to manage risk and expectations that can keep the plan on track. “I don’t really think about the degree of difficulty or the possibility of making a mistake. I just try to relax and let my preparation and training take over.” Simone Biles

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