Leigh Baldwin & Co.

Investment Brokerage

A solid third quarter for investors, particularly when it comes to equities, was punctuated by a decrease in interest rates by the Fed, with a big one-half percentage point drop. As the economy continues to expand at a surprising rate, along with near record low unemployment, it feels like an elusive "soft landing" may have been achieved. Prominent in this thesis is that inflation has finally been tamed and all systems are green lit to go. But what is the bond market telling us? Clinton strategist James Carville once said "I used to think that if there was reincarnation, I wanted to come back as the President or the Pope or as a .400 baseball hitter. But now I would want to come back as the bond market. You can intimidate everybody." Well, the bond market is speaking…since reaching a near-term low in September of about 3.5%, the ten-year interest rate has gone up to over 4.36% on the eve of the 2024 election. As a public service reminder, the Fed controls short term rates while the bond market controls the rates that matter with respect to mortgages and long-term borrowings. Note, the prime rate is 8% prior to the next FOMC meeting on 11-7-24.

One of the key issues, which has been barely spoken about by either political party this election season, is the significant amount of debt in the US and around the world. We can avoid talking about it, kind of like some of your family members, but it is still out there. As a nation, we are currently carrying about $68 trillion in debt, with about $36 trillion of it issued by the US government. If we suppose that at an average of 6%, the debt coverage then translates to about $4 trillion a year. If we follow the bouncing ball, the debt coverage is about 14% of our annual GDP. Ultimately, Inflation may be stickier than expected and our portfolios should reflect this.

Looking ahead and through the fourth quarter, we do expect some volatility that could be muted by solid quarterly earnings and a dovish Fed. The largest tech firms continue to be firmly committed to expanding their AI offerings and could provide equity support. As for interest rates, we are positioning portfolios to benefit from current yields while simultaneously trying to manage the risk of interest rates dancing to their own tune.

We look forward to speaking with you as we head towards the end of 2024 and beyond and we thank you for your continued confidence in our firm.

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