Markets Slip Slightly in August as Investors Eye the Fed Again

The last full month of summer was a fairly calm one for the financial markets, which is typical. The stock market ended August with slight losses while long-term interest rates took another jump, but the economy remained relatively strong, inflation continued to decline, and no new major issues emerged. The only thing really weighing on investors (not surprisingly) was the question of whether the Fed will raise interest rates again at their next meeting. We'll know the answer when the Fed holds its next policy meeting on Sept. 19th. Regardless of the Fed's decision, it's important to remember that, while summer is typically a quiet time for the markets, things can change quickly once fall gets underway.

As you know, after raising short-term interest rates at a historically aggressive pace for about a year, the Federal Reserve has slowed their pace in recent months. They finally took a pause from rate-hiking altogether in June, then instituted another quarter percent increase in July, bringing their benchmark Fed funds rate up to a range of 5.25-to-5.50%, its highest level in 16 years.

The Fed's efforts have also pushed long-term interest rates up to their highest levels since 2007. However, since early this year, the bond market has, to some degree, been pushing back against the Fed's increases. As a result, short-term rates have continued to rise faster than long-term rates. In fact, long-term rates are still lower than short-term rates overall, which means the yield curve is inverted. Since an inverted yield curve puts pressure on banks and is a warning sign of a recession (as I've discussed in previous newsletters), the inversion gives the Fed additional incentive to stop rate hiking entirely, which would be the best news possible for investors.

Hostile Headwinds

As you know, the Fed's hawkishness last year created tremendous headwinds for investors, since rising interest rates decrease the value of all assets. Those headwinds have diminished this year as the Fed has progressively slowed their pace, but until they've wrapped up rate hikes altogether, the potential for market volatility remains. That's probably why the markets seemed increasingly nervous by the end of August as the Fed's next meeting date drew closer. After posting solid gains in July, Wall Street slipped a bit in August, with all three major indexes falling slightly. The S&P 500 dropped by 1.6%, the Dow Jones Industrial Average dipped 2%, and the NASDAQ ended 2.1% lower. All the same, the August slump didn't detract much from the market's strong year-to-date performance. The NASDAQ is still up 34.1% in 2023, the S&P 500 is 17.4% higher, and the Dow is up 4.8%.*

Meanwhile, that twinge of nervousness that hit Wall Street in August also slipped into the bond market. As a result, long-term interest rates took a significant jump, as mentioned, with the interest rate on the 10-year government bond spiking from 3.95% at the end of August to 4.17% by September 1st.** Once again, however, even though long-term rates are at their highest levels since before the Financial Crisis, they remain lower than the Fed's benchmark short-term rate, which means we have an inverted yield curve and an increased risk of slipping into a recession if the Fed continues raising rates. Although the markets priced in the Fed's July rate hike ahead of time, by now investors may be in the mindset of, "enough already!", and less willing to casually accept another bump this month.

Again, we'll know the answer on September 19th. But whatever happens, it's important to keep in mind that – historically – the financial markets tend to get more volatile in autumn for a variety of reasons. Some of the biggest downturns in stock market history have occurred in October, as you probably know. The point is, pay attention, and stay informed!

Your Portfolios

Of course, the potential for volatility and market uncertainty is the reason you're invested for income in the first place. It's a strategy designed to keep you on track with your financial goals regardless of market conditions, and we saw this demonstrated again in August. Despite that significant jump in long-term interest rates, our portfolios of bonds and bond-like instruments did quite well for the month. Depending on your holdings, you will likely see your values only down between a quarter to three-quarters of a percent. And year-to-date (once again, depending on your individual holdings), our most conservative portfolios are still up by between 6% and 8% on average with interest and dividends reinvested. That's very good when you consider that – despite the Fed slowing down – we have remained in a rising interest rate environment all year!

As for our stock dividend portfolios, they're still up by about 3% on average for the year after August. That's not as good as some previous years when we've beaten the S&P handily, but, as I've explained before, it's only because the markets have been driven primarily by tech stocks this year, namely artificial intelligence. And since those companies don't pay dividends, they don't fit into the income model. Of course, the more important point – as I always mention – is that whether your portfolio goes up or down from month to month is largely irrelevant when you're investing for income because your interest and dividend return remains consistent.

Lastly, I want to take a moment this month to note that the purchase of TD Ameritrade by Charles Schwab is now complete, and you will, of course, see this reflected on your latest statement. I know you've been aware for some time that this change was coming, but I just want to mention it and to reassure you that it does not affect your holdings in anyway. I also want to let you know that if you check your accounts online and need assistance with updating your credentials and log-in information – or if you have any other questions or concerns on any topic – just reach out to our office at any time.

Enjoy the rest of your summer!

**"Monthly Market Wrap: August 2023," YCharts.com, Sept. 5, 2023*
***CNBC.com*

September 2023 Recipe: BBQ Chicken Flatbread Pizza

Ingredients:
2 flatbread crusts (use this easy homemade flatbread recipe or store-bought works too)
1 cup BBQ sauce
2 cups diced grilled chicken (or shredded rotisserie chicken)
3 cups shredded Colby Jack cheese
1 cup chopped bell peppers
thinly sliced green onion for garnish

Directions:
1. Preheat oven to 425 degrees.
2. Place flatbread crusts onto two baking sheets dusted with cornmeal.
3. Divide BBQ sauce between the two flatbreads, spreading it in an even layer.
4. Divide cheese evenly between the two crusts, sprinkling it in an even layer.
5. Add diced chicken to both flatbreads along with the chopped peppers.
6. Bake 12-14 minutes or until the cheese is melted and the edges of the crust are dark golden brown.
7. Slice, garnish with green onion, and enjoy!

The "BBQ Chicken Flatbread Pizza" recipe is shown here:
https://midwestfoodieblog.com/5-ingredient-bbq-chicken-flatbread/