Investors Hope the Fed Will Help Keep the Markets Calm This Fall

After rebounding from a rocky start in August, Wall Street started September with another big swoon. More volatility could lie ahead as the economy continues to slow, the presidential election draws closer, and the Federal Reserve finally gets ready to start lowering interest rates.

As you probably recall, the stock market started August with a three-day rout that culminated on August 5, when Wall Street had its worst day in over a year. Several factors likely triggered the sell-off, including the release of downgraded earnings projections from some of the Magnificent 7 tech companies, another disappointing jobs report from the Labor Department, and the surprise announcement that Japan's Central Bank intends to start raising interest rates. While some volatility remained throughout the month, all three major indexes managed to finish August with slight gains: the S&P 500 added 1%, the Dow 0.6%, and the Nasdaq 1.1%.[1]

Then came September and it was déjà vu all over again. On September 3, the Nasdaq plunged by 3.3%, the S&P by 2.1% and the Dow by 1.5%, marking Wall Street's worst day since… well, since August 5. Triggering factors this time included the release of new data showing that the U.S. manufacturing industry could be weakening and worries about how this month's pending unemployment report could impact the Fed's decision to lower or not lower short-term interest rates at their next meeting on September 18.[2]

Recession Worries

The bottom line is that investors are becoming increasingly concerned about a potential recession. At the same time, they are anxiously watching for signs that the Fed shares that same concern and will take the right countermeasures, at the right times, to support the weakening economy. The good news there is that at the Fed's last meeting on August 23rd, Chairman Jerome Powell said "the time has come" for a rate cut based on cooling inflation numbers, the slowing job market, and other factors. Many economists expect the Fed will approve a rate decrease of at least .25% at their September meeting.[3]

But, of course, there's no guarantee that will happen, and even if it does it won't be a panacea for all the various worries weighing on investors as we move toward the final fiscal quarter of 2024. As noted, Japan's intention to raise interest rates at a time when most Central Banks around the world (including ours) are moving to lower rates is a new concern, as are those downgraded 2025 earnings projections for several big tech companies, as well as many companies in other sectors.

As I also mentioned, the presidential race is also on the minds of investors and will increasingly be a concern as November draws closer. With Kamala Harris still carrying strong momentum, the prospect of a Democratic win means that an increase in the corporate tax rate – with a negative impact on earnings – could eventually be in store. In addition, there are, of course, still several geopolitical issues that could escalate and disrupt the markets at any time, in particular the ongoing wars in Ukraine and Gaza.

So, once again, investors have a lot on their minds and will be keeping a close eye on the Fed as the rest of the year unfolds. If they remain optimistic the Fed will make the right moves to keep the economy from falling into a full-blown recessionary spiral, the markets should remain relatively

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Investors Hope

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healthy. It would seem the bond market is already showing signs of optimism and has priced in the Fed's first expected rate cut later this month. The interest rate on the U.S. 10-year treasury bond has dropped from just under 4% a month ago to 3.77% as of early September.[4]

Your Portfolios

Long-term rates will likely continue to trend downward once the Fed does start cutting short term rates, which, of course, would likely mean an increase in the values of the individual bonds and bond-like instruments in the portfolios of fixed-income investors. Remember, however, that interest rates aren't the only force that affects bond values. As I pointed out last month, going forward, those of you in our most conservative portfolios of bonds and bond-like instruments may, depending on your holdings, see your values impacted a bit by credit spread fluctuations once the Fed does start lowering rates, but the impact will likely be minimal.

Of course, the most important thing to remember, as I always stress, is that any fluctuations up or down in your asset values on paper are largely irrelevant when you are investing for income because your interest and dividend return remain steady and unchanged regardless of market conditions.

With that in mind, I'm happy to report that thanks to the market's August rebound, we are now on track with our portfolios to deliver an average income yield of 5-6.5%, net of fees, for the year, which is on track to slightly ahead of our target goal.

As always, if you have any questions about your investments or any other issue, please call our office at any time!

1 *"Stock Market News, Aug. 30: S&P 500 Ends Rocky August with a Monthly Gain," The Wall Street Journal, Aug. 30, 2024*

2 *"Wall Street Suffers Worst Day Since Early August Meltdown," Washington Post, Sept. 4, 2024*

3 *"Fed Chair Powell Says 'Time Has Come' for Interest Rate Cut," NBCNews.com, Aug. 23, 2024*

4 *MarketWatch.com*

Debt and Your Retirement

Most people's vision of retirement not only involves freedom from work, but also, freedom from debt. Mortgages, credit card debt — even student loans — now follow people into their golden years, and that can have serious consequences for their long-term financial health.

The Debt-Free Retirement Goal

When you retire, you stop actively earning income and start living on your savings. If you're still paying off debt, those payments will be another fixed expense, which means you'll have less to spend on things you truly enjoy. By going into retirement debt-free, you'll lower your living expenses, which will make your nest egg last longer.

Reducing Debt before Retirement

If at all possible, you'll want to eliminate your debt before you retire. Of course, some types of debt are worse than others. High-interest credit card debt can be a significant burden, so you'll want to eliminate it as quickly as possible. If you have a car loan and are close to retirement, consider selling the car after you quit working, since many people find that they no longer need multiple vehicles in retirement. Getting debt-free before retirement may also mean aligning your mortgage payoff date with your retirement date; you may be able to bring your mortgage payoff date closer by making extra payments.

One thing you shouldn't do: take money out of your retirement accounts to pay off credit card or mortgage debt. If you focus all your financial resources on paying off your loans, you run the risk of retiring with inadequate savings. Another potential misstep: prioritizing debt payoff over saving. While you don't want to be saddled with excessive debt, you also don't want to end up cash poor in retirement, without enough money to meet everyday expenses.

Debt in Retirement

Unfortunately, many people still end up nearing retirement holding a significant amount of debt. If that's your situation, you have several options. One is to delay retirement for a few years while you concentrate on paying off debt. In addition, if you delay claiming Social Security, your monthly payment will increase by up to 8% a year until you reach age 70.

If you must enter retirement with debt, you may need to pare down your lifestyle — traveling less frequently, moving to a smaller home, or giving up your boat or RV — to reduce debt and minimize the risk of outliving your retirement savings.

Finally, know that going into retirement with debt poses some other, specific risks. While most creditors can't garnish your Social Security payments, the federal government is an exception. If you owe back taxes, student loans, alimony, child support, or certain other types of payments, you may lose up to 15% of your Social Security benefit.

How Much of Your Retirement Income is Protected from Market Volatility and Guaranteed to Last?

Learn How To Use Time Frame To Eliminate Retirement Risk, Fees & Losses!

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- **L**iquidity
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- **S**leep
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Who We Are:

Empowerment Resources International Corp(A+ Rated & Complaint Free, per the Better Business Bureau) offers Insurance & Financial Planning Services. We're located in the Chicago Mercantile Exchange (CME) Center in Downtown Chicago. Eric K. Williams is the President of ERI and has achieved **Qualifying Life Member**, currently **Top of The Table**, in the Million Dollar Round Table, MDRT, the premier association of Financial Professionals®.

What We Do:

We Provide Solutions to Address the Systemic Root Causes of Inadequate Financial Freedom in America (Taxation, Interest Payments, Unknown Excessive Fee-Structure).

Using Our Knowledge along with our Combined Experience and Proprietary Technology, We Help Our Clients Achieve Their Goals. Those Goals Include: **Creating** their Own Bank, Directing their Dollar to Accomplish at least Two Jobs Instead of One; Eliminating **ALL** Debt including their Mortgage and Student Loans, in 9 Years or Less; & Self-Finance Purchases.

We Teach Our Clients to Use Time Committed Vehicles that Eliminate Risk & Fee Structure; Thus, Replacing Retirement Risk, Fees & Losses with **Guarantees & Lifetime Income**.

UNIQUE PROBLEMS SOLVED FOR OUR CLIENTS:

- Avg. Family Pays $155k in Hidden Wall Street Fees,(Frontline "The Retirement Gamble" 4/13), (ABC World News, 5/12)
- The real Interest on Mortgages and Student Loans is 60-100%, not the advertised rate 2-7% that we're misled to be paying
- U.S. Census Bureau statistics show that 74 cents out of every dollar coming into the Household goes to Interest & Taxes.

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