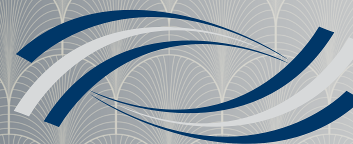
INVESTMENT UPDATE

DECEMBER 2024



ROMANO
BROTHERS & CO.
MANAGING YOUR INVESTMENTS - LIKE OUR INVESTMENTS. SINCE 1962
Member FINRA/SIPC

FED'S FIGHT ON INFLATION LIKELY NOT OVER

Actions by the Federal Reserve have dominated our last few newsletter updates, predominantly as they have increased rates over the past 18 months to combat inflation. But that trend reversed itself with a 0.50% cut in September followed by a 0.25% reduction in November. Markets are currently pricing in a 76.1% chance of another quarter point being shaved off in December. After that, market pricing points to the Fed skipping January and moving at a slower easing pace through 2025.

With the pace of inflation coming down (technically defined as disinflation) closer to the Fed's 2% target, the Fed is being cautious not to strangle the economy in its effort to stamp out rampant inflation. Yet recent data shows US inflation staying firm. The core Consumer Price Index (CPI) increased 0.3% for a third month in October, rising at a 3.6% annualized rate and marking the fastest pace since April according to Bloomberg.

Another measure, the Producer Price Index (PPI), came in at 2.4% for October, the third – highest print of 2024 and up +0.5% from the upwardly +1.9% revised figure the month prior. On a year over year basis the PPI came down a smidge to +3.1%, though ex-food and energy rose +3.5%, the hottest figure since March of 2023. Right or wrong, the public seems to think that for inflation to no longer be a problem prices would have to come down to the level they were pre-COVID. But that is clearly not in the cards. That would actually mean deflation and is something the Fed wants to clearly avoid. That scenario would risk an economic death spiral, as consumers delay purchases in anticipation of prices being lower in the future, thereby starving the economy in the process.

Instead, getting to the Fed's 2% inflation target means not only that prices aren't going back to where they were but also that they are going to keep rising, albeit at a slower pace. So far, even that 2% goal has remained elusive as the embers of inflation keep burning. Since we haven't yet seen a significant or prolonged slowdown in growth or much less a recession, it remains to be seen whether inflation will reach the target on a consistent basis. Hence, it is quite plausible that the Fed could pause rate cuts early in the coming year. Time will tell.

Still, the stock market has been unfazed and shrugged off these data points. Markets have been trading near highs on almost every available index. The market is shaping up to have another very good back-to-back year, but it's not only hard to imagine but statistically unlikely that will continue. This shapes our investment outlook and strategy moving forward. Bond yields on the longer end of the curve have actually risen about 70 basis points in the past month, so this is an area of great focus for us at this time.

We wish you and your families the best this holiday season and in the coming year. We are grateful for your continued trust and confidence in all of us, and honored to have you as a part of the RWM family.

Joe Romano
PRESIDENT

ARE INTEREST RATES REALLY GOING DOWN?

Recently, the Federal Reserve's decision to lower the fed funds rate twice by a total of 0.75% has been a particularly newsworthy barometer for gauging the direction of interest rates. Traditionally, this rate serves as a signal of the Fed's stance on economic policy, often aimed at stimulating economic activity during slowing growth or countering inflation when it's high. However, despite the cut, long-term rates have moved in the opposite direction increasing over 0.70%. This divergence underscores a complex market landscape, where investors are navigating factors such as anticipated future inflation, expectations of economic resilience or growth, and potential increases in the supply of long-term bonds - all of which contribute to upward pressure on yields.

What is the fed funds rate? The fed funds rate is the interest rate at which banks and credit unions lend reserve balances to other depository institutions overnight. This rate is set by the **Federal Open Market Committee (FOMC)**, a branch of the Federal Reserve, as a key tool in monetary policy. The fed funds rate has its most direct impact on short-term interest rates - those with maturities of 0 to 1 year. This includes deposit rates, like those for savings accounts and money market funds, as well as short-term loan rates.

The Federal Reserve's actions have recently had a more limited impact on bond markets. Instead, long-term rate trends are significantly influencing mortgage rates - one of the most important consumer interest rates, as they directly affect housing affordability. Since most mortgages are fixed-rate, they are closely linked to long-term bond rates rather than short-term rates. When mortgage rates rise, affordability declines, which can dampen housing demand. Conversely, when rates fall, affordability improves, often boosting homebuying activity and supporting higher home prices.

Another factor contributing to the rate disparity is the unusually prolonged inversion of the yield curve. An inverted yield curve - where short-term interest rates exceed long-term rates - signals atypical market conditions and often points to economic uncertainty or expectations of a slowdown. This current inversion is the longest in history. As illustrated in the chart, it is typically "normal" for longer-term rates to be higher than shorter-term rates, reflecting expectations for future growth. A return to a normal, upward-sloping yield curve will likely require additional Fed rate cuts alongside stable or rising long-term bond rates which seems to be what the markets are expecting.

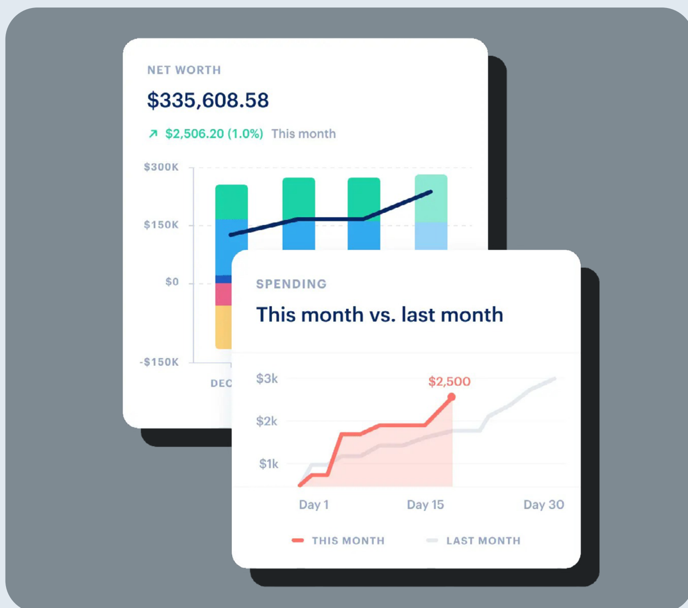
Doug Geisser
VP Fixed Income Principal

Percentage spread between 10-year and 3-month rates usually shows higher rates for long term bonds

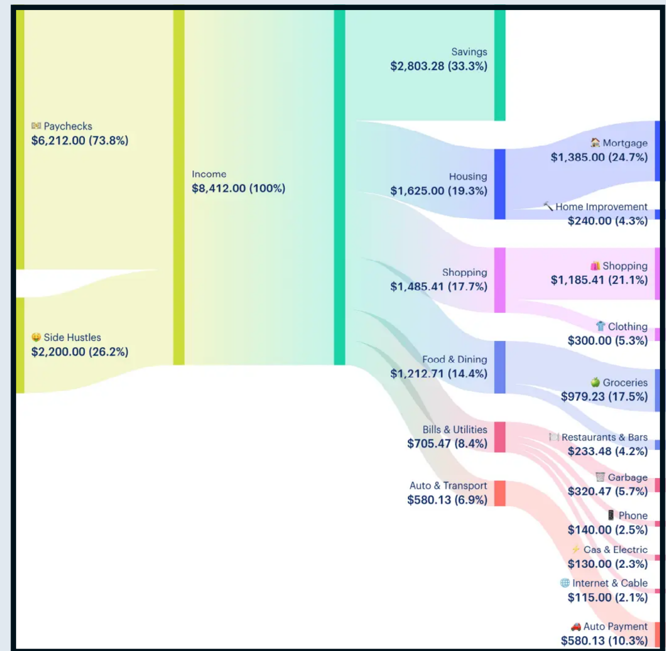
IN CASE YOU DIDN'T KNOW: GOODBYE MINT, HELLO ??

Earlier this year, Intuit, the software giant behind TurboTax, shut down its budgeting app, Mint - a longstanding frontrunner in the world of financial apps. Since then, we've had clients reach out to us about alternative apps or platforms they can use to get one big, comprehensive picture of their entire net worth: checking and/or savings accounts, credit cards, loans, investments, property, vehicles, and even crypto. While Quicken remains a popular and familiar option for many, its accounting roots can make it a bit intimidating for the average user.

Enter Monarch Money – with its ease of use and smartly designed features, it is quickly becoming the new contender for the crown of financial budgeting apps. Monarch has the ability to connect accounts from over



1300 different institutions, including First Clearing, the Romano Wealth firm custodian, allowing you to see the full range of your income and expenses in one place. The app has a web platform as well as a mobile app that syncs together seamlessly and includes just the right blend of automation and manual work, which means it won't take up too much of your time but allows you to be proactive and stay on top of all your moving pieces.



The app's main dashboard offers a look at your overall budget, letting you view your net worth and recent transactions, track your investments, compare this month's spending to last month's, and is highly customizable, letting you choose what to include and where they should be located in priority of what's most important to you. You also have the option to invite other people into your dashboard, which makes it a great fit for couples or families. Monarch also protects your data with bank-level security and is fully read-only; money cannot be moved through its platform.

One of the few arguments against Monarch money is the cost; at $99.99 a year, it is considered to be on the more 'expensive' end of available choices. While there are many alternative options out there, Monarch has been consistently at the top of recommendations from publications like The Wall Street Journal and Business Insider, and is an app we know can link to Romano Wealth (First Clearing) accounts. Our team at Romano put it to the test and we've given it the thumbs up too. If you're in the market for a new financial app, consider giving it a try. (*www.monarchmoney.com*)

Valerie Romano
Operations & Client Services Manager

ROMANO
BROTHERS & CO.
WEALTH MANAGEMENT
Member FINRA/SIPC

1560 SHERMAN AVENUE
SUITE 1300
EVANSTON, IL 60201

OFFICE 847 866 7700
FAX 847 866 7054

ROMANOWEALTH.COM

ROMANO NEWS

COFFEE ACROSS THE POND!

Pictured above is Omar Haq, Client Services Director in RWM's London office, with Patrick Flanagan, a third generation RWM client also based in London. The two recently met for a "cuppa" in a café in Central London near Patrick's office. The RWM reach goes long and far!

CONGRATULATIONS KYLE

Congratulations are in order for Kyle Munson. He passed his Certified Financial Planner exam and we are so proud of him!

This newsletter has been prepared by Romano Wealth Management for our clients and other recipients. Within this document, we may express opinions about the direction of financial markets, investment sectors, trends, and taxes. These opinions should not be considered predictions of future results, and are subject to change at any time. Past performance is not indicative of future returns. Nothing in this document represents a recommendation of any particular strategy, security, or investment product. This information is provided for educational purposes only and was obtained from sources considered reliable, but is not guaranteed and not necessarily complete. Please consult your portfolio manager for more information.

Investment products not FDIC insured • May lose principal • Not appropriate for all investors