



Ropes Wealth Reminds A Crisis is a Terrible Thing to Waste

Nobel laureate Paul Romer, one of the most influential economists of this century, was seated at my table last evening at an event for my alma mater, Boston College. Paul has just joined our faculty and will launch the Center for the Economics of Ideas at BC. Chatting with him reminded me of his very famous quote uttered in 2004 to a group of venture capitalists: “a crisis is a terrible thing to waste.” Indeed, economic downturns and periods of uncertainty often present unique opportunities. Throughout history, recessions and sea changes have proven to be breeding grounds for innovation and defining the new normal. Let’s hope so, as we have a bit of a crisis developing on our hands.

Government funding runs out at 12:01 a.m. ET on Sunday, and it is not looking good for a resolution between Democrats and Republicans on a compromise. With that, the U.S. government is poised for a federal shutdown, the first of its kind since 2019, potentially costing American taxpayers billions of dollars. Besides a significant waste of resources, the consequences of a shutdown are many including an erosion of confidence in government officials and voter frustration as the 2024 election rapidly approaches. According to the Senate Homeland Security and Governmental Affairs Committee, the last three government shutdowns cost taxpayers a total of nearly \$4 billion including billions in back pay to furloughed workers as well as millions in lost revenue and late fees on interest payments.

Of course, with the government's balance sheet topping \$31 trillion in FY 2022, growing 94% in the past 10 years, and with debt servicing costs rising to 7.5% of the budget and expected to rise to more than 10% in the next decade, it is not surprising that some see reining in the size of the government's balance sheet as the top priority for longer-term stability regardless of the very short-term disruptions.

Such volatility will without doubt compound pressure on investors already facing an uncertain outlook for the economy and policy, and furthermore complicate the landscape for the Federal Reserve to continue to raise rates, at least nearer term.

Perhaps in one relief piece of economic data this week, we learned this morning that the Federal Reserve's preferred measure of underlying inflation rose at the slowest monthly pace since late 2020, which may help lay the groundwork for policymakers to forgo an interest-rate hike at their next meeting. The core personal consumption expenditures price index, which strips out the volatile food and energy components, climbed 0.1% in August, according to the Bureau of Economic Analysis. However, on an annual basis, that gauge of inflation is showing core inflation growth of 3.9%, well about the 2% target articulated by the Fed.

Other economic news this week confirmed a rolling over of economic data, with tepid reports in consumer confidence, new home sales, and manufacturing. And while the Hollywood Screenwriter's Guild strike resolved successfully, the United Auto Workers is expanding its strikes this weekend as talks continue without much progress.

Reverting back to today's theme of finding opportunity in crisis, I want to remind my readers that we have been preparing for some of these challenges all year. We have set aside cash in Treasury bills earning high interest rates, and positioned portfolios in balance with your long-term plans, not tilted off-sides given our strong instincts that the risk of recession still lurked and that challenges with monetary and fiscal policy would weigh on markets sooner or later. We urged you to make charitable gifts early, take required minimum distributions in full or at least partially when markets were high, or set aside those funds in high cash allocations given our expectations that an

air pocket of volatility would emerge. With that volatility now upon us, we are hunting for opportunities, and to call again upon the words of Paul Romer, we are seeking to not let crisis go to waste in our pursuit of strong and high-quality investments that will endure and even prosper in the context of our world's current challenges of political dysfunction, aging demographics, climate change, and economic imbalance. We are excited to share those ideas with you in our personal planning discussions, and to make sure you have the confidence that your plan has the right amount of liquidity to buttress the short-term and yet still be positioned for success for the long-term.

Thank you as always for your interest in our investment commentary. Please let your RWA team know if you have any questions or concerns. If you would like to speak personally with a member of our team at any time, please click [here](#).

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