***Please note: This is an AI generated transcription - there may be slight grammatical errors, spelling errors and/or misinterpretation of words*.**

We've experienced a lifetime of market drama over the last five years since the onset of COVID. Thousands of books are bound to be written about these post pandemic years, including the economic aftershocks. Today, however, this all feels like an old story. One that's already been told and told again.

Yes, retold. Yet, it's still highly relevant because societal actions over the past four and a half years have had an outsized impact on conditions today.

As the post COVID world continues, On the almost completed path to normalization, the last remaining pandemic distortions are finally resolving. Think back to the initial shock of COVID. Consider this portion as the first chapter of the story. It was a story of crisis and response. After a full stoppage of almost all economic life, activity normalized quickly, particularly after the rollout of vaccines.

Supply chains came back online, government support programs ended, and the stock market rebounded from its initial near 40 percent collapse. The second chapter was longer, more complex, and honestly, harder to interpret. Major parts of the economy, inflation, employment, housing, didn't snap back quickly.

Although stocks remained resilient, notching dozens of new all-time highs, it took three full years to see progress on these other big swaths of the economy. Then this year, in mid-September, the U. S. economy started yet another chapter in the post pandemic story. As inflation moderated, concerns shifted to the health of the underlying economy, especially the job market.

The Federal Reserve cut interest rates for the first time since the middle of 2020, a policy shift that signals the beginning of the end of higher rates, which of course have strained consumers, businesses, and governments alike. The market reaction to this rate cut was predictable. Interest rate sensitive corners of the market came back to life.

Small company stocks outpaced larger ones, for example. Debt heavy sectors like real estate and utilities showed some of the strongest gains. And bonds deliver positive returns for a change as yields fell. But aside from lower rates, what might this new chapter hold? Likely some plot twists. And there are many open questions that will shape how the story unfolds.

First, the election. Yes, the policies of the presidential candidates are very different, but 34 Senate seats and all 435 House seats are also up for election. Ultimately, it's the makeup of Congress that will determine which policies get implemented, and investors won't have clarity on that until at the earliest, election night.

Second, the U. S. budget. Whoever wins in November will inherit an abysmal fiscal situation, record levels of debt, and Interest payments that match the defense budget? Put it together and some tough decisions will be needed, regardless of who wins the White House. Then, there's the behavior of businesses and consumers.

Will lower rates give companies the ability to invest? Hire more workers? Will they give consumers more spending power? And will artificial intelligence provide a meaningful boost to worker productivity? All super important but unknowable questions, at least today. And finally, we return to one of the central characters in the story, its protagonist, Jay Powell and the Federal Reserve.

As the Fed digests new data, how quickly will or should rates continue to fall? If they come down too fast, the Fed could reignite inflation. But keeping rates too high for too long could pressure a softening economy and frustrate investors. While the economy remains strong, the employment picture is weakening, a highly unusual circumstance.

The Fed sits sharply and very uncomfortably today. Of course, any transition to a new economic regime creates ambiguity. But when that transition coincides with a volatile political environment, it only heightens the drama. For now, we see a lot to like in this economy. The unemployment rate remains low, albeit rising.

Consumer spending powers on. Companies have healthy profits. Stocks are at all-time highs. Bond returns have improved with lower rates. Savers can still earn a return on their cash. And lastly, lower rates may even help to thaw the frozen housing market. So, our advice is to stay invested, remain diversified, and brace for some inevitable plot twists.

Because the next part of this story could be a real page turner.