Washington Crossing Advisors

Portfolio Comment

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About Washington Crossing Advisors
WCA strategies are offered through the Stifel Score Program (Research-Driven Portfolios). The management team has worked together for the past 20 years as market strategists and portfolio managers.

About Stifel
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DEBT CEILING: EXPECT A DEAL

We expect a debt ceiling agreement to be met, since the consequences of one not being met would be unthinkable. Still, markets remain highly sensitive to events in Washington. Investors still remember the summer of 2011, when stock markets around the world fell by over 20% during late July and early August, and remained volatile for the rest of the year. The main culprit back then: mounting federal debts and dysfunction in Washington.

That summer, rating agency Standard & Poor's issued its first-ever ratings downgrade of our nation's debt, and other rating agencies warned of similar potential downgrades. Among the reasons for the downgrade was pessimism over the "gulf between the political parties" on fiscal issues and concern over the nation's growing debt burden.

The current partial government shutdown shows us that Congress remains as divided as ever, but there is some encouraging news. Since 2011, the deficit has fallen by half and investment is rising as a share of the economy. In other words, key drivers of our fiscal health are gradually but steadily improving. For these trends to continue, avoiding recession and encouraging growth is essential. In order to do that, Congress must be willing to make concessions and negotiate a debt ceiling bill.

The debt limit is potentially a much bigger issue than the shutdown. If a deal is not struck that raises the current $16.7 trillion debt ceiling, then a default or downgrade would probably follow. The resulting fallout would seriously damage the global economy and financial markets. Given these high stakes, markets are probably right in betting that an agreement will be found, although the exact path to resolution remains unclear.

So what's an investor to do? We are reminded that the worst mistakes in investing usually happen as the result of emotional decisions made at the height of hysteria. So, above all, stay calm. Ask yourself if your portfolio is still as diversified as it should be. After all, we have had a 110% move in the stock market since the 2009 market lows. With markets near multi-year highs, it might pay to examine whether your mix of stocks and bonds is still consistent with your goals and risk tolerance. Above all, remain open-minded and remember that sometimes the best opportunities present themselves during times of tremendous uncertainty.

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