A glance back at 2022 provides a dismal view for the vast majority of financial assets. The DJIA, S&P 500 and NASDAQ all posted their largest declines since 2008. Bonds tumbled to the worst ever selloff. The general thought that inflation would be transitory was undermined by the Russian invasion of Ukraine placing additional pressure on already high oil and gas prices. Other inflationary pressures followed. Geopolitical risks increased in many corners of the globe.

With the most aggressive interest rate hikes implemented by the Fed since the early 1980s, there is widespread carnage, particularly in rate sensitive real estate, technology and consumer discretionary sectors. The 2023 implication of the Fed's catch up policy is a recession - which is all but given at this point (priced into market expectations). The question: how long and how deep. It is disturbing that the Fed *and* Treasury messaging has been so inconsistent and contradictory. As we progressed through 2022, an increasingly hawkish Fed led to ever expanding losses for financial assets. Mass layoffs are gaining momentum, although laid off workers who choose to find employment are finding strong demand from employers. As in all inflation spirals, wage inflation is a key driver. This cycle seems extraordinary, as the chasm between job openings and workers willingness to engage remains wide. The underlying issue continues to be too much fiscal stimulus. The fiscal authorities (the administration and congress) are printing money that has been issued as debt by the federal reserve balance sheet, the result is an expanding supply of money - which is inflationary. The primary counter measure by the Fed is to continually raise rates. On a separate fiscal note: $31.5 trillion in national debt is far too high. Budgetary restraint is required although not forthcoming. The passing of the Omnibus 2023 Budget make it apparent that there is little fiscal prudence from either side of the political aisle.

China's recent decision to relax key portions of the zero covid policy will result in tremendously higher travel out of China. Bookings are currently skyrocketing. In all likelihood, this will translate into a substantial increase in spending on luxury goods/ travel related purchases. The Chinese historically have been the largest spending demographic while traveling abroad. While the opening is certainly a welcome development on many fronts, the fear of new covid variants has gripped the attention of many. The general consensus is that the fear is unfounded, although the verdict is still out. Some analysts and commentators are calling for emerging markets to outperform developed markets in 2023. So long as lending rates are escalating, I find this scenario unlikely. Additionally, the lifting of zero covid policies could overwhelm the medical infrastructure of China and neighboring developing economies.

It is not all doom and gloom. 2023 should provide a more constructive backdrop for financial assets. Despite the Fed's tough talk, the majority of the heavy lifting on rates should be behind us, with inflation moderating throughout the year. The midterms historically have provided a boost, particularly so with a split Congress. Between 1946 and 2018, all 19 midterm elections were followed by a positive 12 month period, with an average return of 18.34%. The printing of money referenced above as the underlying issue of inflation, has decelerated to a trickle from the Fed, in contrast to the parabolic rise of 2020 and 2021. The current 1.7% growth rate in the M2 money supply is well below the 10 year average of 5%. Please call or email anytime with questions or concerns. Thank you. The best for 2023!

Notes: Hi

Ramsdell Capital Management . 505 Montgomery Street. Suite 1000. San Francisco, Ca 94111
415.568.2200 / 800.959.9950 / will@ramsdellcapital.com