Market Commentary-Fourth Quarter of 2022

Financial markets posted their first quarterly positive returns in 2022 in the fourth quarter. All the major U.S. Equity Indexes experienced losses for the year with the stock market returns having its worst yearly decline since 2008. The table below shows fourth quarter and year to date returns as of 12/31/2022 (amounts are for total percentage returns):

Time Period	Dow Jones Industrial	S&P 500 Index	Nasdaq Composite	Barclays U.S. Aggregate Bond
Fourth Quarter 2022	16.0	7.6	-0.8	1.9
Year of 2022	-6.9	-18.1	-32.5	-13.0

The equity markets had substantial volatility, attributable to higher inflation, multiple interest rates hikes, the Ukraine conflict, and other factors

The S&P 500 index had a total return of -18.1% for 2022. This decline followed three successive double-digit positive return years. Leading S&P sectors for the quarter were energy, materials, industrials, and financials with the value category of stocks outperforming growth stocks. Energy was the only sector with a positive return (up 65%) for 2022. As noted, stocks had notable declines in 2022, as did other financial assets such as bonds and crypto currencies, which had significant declines. Commodities returns were mixed with a composite return of twenty-nine primary commodities higher by 3.8% for the year. Value stocks again outperformed growth stocks for 2022 for the second successive year.

Will 2023 Bring A Recession?

Many factors will determine the 2023 economy and whether the U.S. economy slips into a recession. Higher interest rates are weighing on the housing market, corporate spending, and trade. Higher inflation is slowing down consumer discretionary spending. The personal savings rate has declined to 2.3% and consumer credit card balances are increasing. Labor and supply issues are also a concern. Unemployment is still near all-time lows. However, as business costs increase and demand slows due to inflation, companies will slow down hiring and lay off employees to cut costs. Given a continued tight labor market certain industries are likely to continue to experience staffing and supply chain issues in 2023, which keeps inflation higher for longer. The Federal Reserve (FED) raised interest rates seven times in 2022, to end the year in a range of 4.25%-4.50%. More interest rate increases are expected by the FED in 2023 bringing the fed funds rate to a range of 5.00%-5.25% by the end of 2023, while continuing quantitative tightening (reducing its bond holdings). An overly aggressive rate increase approach by the FED could lead the U.S. economy into a recession sometime during 2023.

The FED historically increases interest rates to combat inflation without due regard to asset prices and employment. Its primary goal is to decrease demand. During the 1970's, there was a combination of high inflation, high unemployment and stagnate demand leading to the term "stagflation". Higher inflation results at times the U.S. Treasury is putting money into the economy at a faster rate than it can be absorbed by the economy. This "excess" monetary stimulus is what occurred during COVID-19, as the money supply was significantly increased by multiple government stimulus programs. This current run up in inflation highlights that rapid monetary expansion does have consequences.

We continue to keep abreast of the current market and economic climates and to make tactical changes to your portfolio as needed. Over the course of 2022 we emphasized value and high-quality stocks and shorter duration U.S. Treasury bonds, based upon our market analysis. One way we have defined quality stocks is high-dividend payers. A sizeable dividend is a sign of financial strength and good cash flow. High-dividend-paying stocks have outperformed during past recessionary bear markets and outperformed last year across sectors and countries. High-dividend stocks outperformed both when the market was going down during the first three quarters of last year and when it was rising during the fourth-quarter rally, and we believe these are trends that will continue for 2023. Our primary focus remains on the long-term returns of your portfolio. We thank you for your ongoing confidence and trust. We look forward to connecting with you soon via a live meeting, voice, or video call.