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WEALTH ADVISORS

January market review

The wave of negativity that engulfed the markets last year was met with a ray of optimism in January as inflation decelerated, interest rates fell, China reopened, and earnings came in better than feared. The result: global equity markets rebounded strongly to start the year, highlighted by the S&P 500 having its second-best January over the past 25 years, the NASDAQ being up over 10%, and emerging markets technically entering a bull market by rallying 20% off of the lows.

So, you may wonder, with this good news, why are some of the largest companies in the economy laying off workers? Well, among several still-challenging macroeconomic indicators and expectations for a recession this year, one should look at corporate earnings and CEOs' forward-looking commentary. Fourth quarter earnings are still being reported, but so far, the S&P 500 component companies are on pace to report their first quarterly decline in earnings since 2020.

"Companies from a wide array of industries have noted macroeconomic uncertainty and weakening consumer fundamentals – for example, falling excess savings – as reasons why business and consumer spending has slowed," Raymond James Chief Investment Officer Larry Adam said. "More important, they expect the slowdown to continue through 2023."

Whereas in 2022, companies were able to raise prices to account for rising costs, the weakening of consumer spending has led some companies to cut costs to preserve margins. Often, that means reducing head count.

But before we look at some of the other issues around the world and the economy, let's look at where we stand one month into 2023.

	12/30/22 Close	1/31/23 Close*	Change Year to Date	% Gain/Loss Year to Date
DJIA	33,147.25	34,086.04	938.79	+2.83
NASDAQ	10,466.48	11,584.55	1,118.07	+10.68
S&P 500	3,839.50	4,076.60	237.10	+6.18
MSCI EAFE	1,943.93	2,108.32	164.39	+8.46
Russell 2000	1,761.25	1,931.94	170.69	+9.69
Bloomberg Aggregate Bond	2,048.73	2,103.94	55.21	+2.69

*Performance reflects index values as of market close on Jan. 31, 2023. MSCI EAFE and Bloomberg Aggregate Bond reflect Jan. 30 closing values.



Winter Edition 2023

In This Issue:

Holiday Schedule—Office Closed

Feb. 20th Presidents Day

Apr. 7th Good Friday

May 29th Memorial Day

June 19th Juneteenth

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Now, let's dive a little deeper.

Eyes on the Fed

The U.S. Federal Reserve (the Fed) is expected to raise the baseline interest rate two more times and then hold the line, avoiding the 1970s-style stop-and-go that was partially blamed for prolonging that inflationary period. Whether the Fed will raise rates by a quarter- or half-percentage point at each of its upcoming meetings remains to be seen and thus remains a topic for speculation.

Challenging indicators

The inversion of the yield curve – when shorter-term bonds have higher interest rates than longer-term bonds – has been a powerful indicator of an upcoming recession, historically speaking. Currently, the yield curve is deeply inverted. Further, banks are tightening lending standards, and demand surveys are pointing down. Those conditions, as well as other negative indicators, suggest a looming economic contraction.

The debt limit debate, cont.

The U.S. hit its congressionally set debt limit in January, leading the Treasury to take “extraordinary measures” to meet the nation's obligations as Congress debates raising the limit. Historical precedence suggests we are not likely to see a deal reached until we get closer to the exhaustion of those measures. Time will tell how hot this debate will be or if it will lead us into the threat of a debt default, but the House seems primed for a fight.

A brightening global outlook

Hugely welcome in January was confirmation that inflation is settling and that the global economy might avoid worst-case expectations regarding the depth of the impending recession. Despite the downbeat tone both to business surveys and lagging economic data, financial markets appear increasingly optimistic regarding prospects going forward.

China without its zero-COVID policy

The Chinese government went from having the world's toughest COVID-19 restrictions to essentially no restrictions at all. While a staggering number of infections caused many businesses to shut down and many people to stay home, Chinese oil imports increased by 4%, year over year, in December, which points to gradual economic recovery. The Lunar New Year travel season may provide further insight into the state of the Chinese economy and consumer confidence.

Yields remain attractive

Bonds have rallied sharply off October's 4.24% level on the 10-year note. Similarly, credit spreads continue to grind tighter and financial conditions looser. A technical analysis suggests 4.24% was the high point in this cycle, and with current yields still at some of the highest levels in the past decade or more, fixed income overall looks attractive.

The bottom line

As has been the case for some time, the economy and world events are creating a volatile mix of crosscurrents. Though January's equity gains are welcome, don't read too much into the result: 2023 promises to be a complex year, though the outlook is better than the one that preceded it. It's safe to expect volatility, but it wouldn't be pollyannaish to expect the **economy and markets to emerge with strength**.

Through all of these events, we will remain committed to the pursuit of your financial goals and your well-being. Thank you for your continued trust in our guidance. If you have any questions regarding this recap – or any other topic – please reach out at your earliest convenience.

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Rent or buy? Decide where to live when you retire and how you'll pay for it.

Location, location, location. The old adage posits that where you live is the most important factor when deciding on housing. And that may be true, but the factors you weigh while making that decision can get more complicated as you move toward retirement. Retirement may still be quite a bit down the road, but you can lay the foundation early on for what you want in a home, whether you prefer to rent or buy, and where exactly you'll want to live if proximity to work is no longer a factor. You may prefer a home on wheels, an active retirement community, or perhaps a home with space for your parents or adult children and grandchildren.

It's not too early to think these things through. Housing costs are a major retirement expense, and retirement will be here sooner than you can imagine, so you'll want to have some of these answers in place.

Take the rent versus buy question. Here are a few things for us to discuss as we plan for your future wants and wishes.

	Renting	Buying
Benefits	Flexibility – When life moves on, you can too. It's common for retirees to downsize or move closer to family or other means of support.	Stability – Fixed costs stay about the same from month to month with a long-term mortgage. Apply for a mortgage well before you retire; lenders prefer a source of steady income.
	Less responsibility – Make sure the landlord is responsible for ongoing maintenance as well as protection against natural disasters, which would free up time and money compared to homeownership.	Equity – You'll build equity, which could serve as an inheritance or source of liquidity down the line.
	Liquidity – Renting may free up assets to invest; over the long term, markets generally grow faster than real estate can appreciate.	Tax deductions – Qualified residential mortgages of \$750,000 or less offer a tax deduction on the interest paid.
Considerations	Landlords can increase rent, sometimes significantly, and you won't be building equity.	You're on the hook for all maintenance, including finding the right service provider and paying associated costs.
	If you believe housing prices are headed lower, you could rent for now and buy a home when prices fall.	Market value can fluctuate, unexpected maintenance issues may arise and insurance deductibles can increase.

Staying put is another option to consider. You may hope to pay off your current home by the time you retire. There's a thrill in bidding adieu to the monthly mortgage. But you're also saying goodbye to that tax deduction mentioned earlier, while remaining on the hook for property taxes and maintenance costs, which could increase the older you and your home get. On the other hand, you may be able to parlay any cash you'd have once used to pay down a mortgage into your investment portfolio, which has the potential to outperform your after-tax cost of the mortgage and generate an extra stream of variable income.

We are happy to walk through the merits and considerations of your options as we plan your ideal retirement. Please reach out.

CHEESY SPINACH AND ARTICHOKE PINWHEELS

Yield: **8 SERVINGS** prep: **20 MINUTES** cook: **20 MINUTES**

MAKE SOME FOR THE BIG GAME!



- **1** 14-ounce can artichoke hearts, drained and chopped
- **2 cups** baby spinach, *chopped*
- **1 cup** sour cream
- **1/3 cup** mayonnaise
- **1/2 teaspoon** garlic powder
- **1/4 teaspoon** onion powder
- Kosher salt and freshly ground black pepper, *to taste*
- **1 cup** shredded mozzarella cheese
- **1/4 cup** freshly grated Parmesan
- **2** 8-ounce tubes crescent rolls
- **1** large egg, *beaten*
- **2 tablespoons** chopped fresh parsley leaves

INSTRUCTIONS

1. Preheat oven to 375 degrees F. Lightly oil a pie plate or coat with nonstick spray
2. In a large bowl, combine artichoke hearts, spinach, sour cream, mayonnaise, garlic powder and onion powder; season with salt and pepper to taste. Stir in mozzarella and parmesan cheese.
3. Unroll crescent rolls, pressing perforations to seal into approximately a 13x18 inch rectangle. Top with artichoke mixture.
4. Starting at the shortest side, roll up, pressing the edges to seal. Cut in eights. Place cute side down, onto the prepared pie plate. Brush with egg.
5. Place into oven and bake until golden brown, about 20-25 minutes.
6. Serve immediately, garnish with parsley, if desired.

Recipe provided by Craig Johnson