Tuesday, January 3, 2023

Good afternoon:

As we begin what we all hope will be a better year for investors, it is worth remembering why 2022 was so challenging. Starting last year on the heels of a twenty-month economic and market expansion, stocks hit their peak for all of 2022 one year ago today on January 3, 2022. Just as fiscal and monetary stimulus applied by the Fed during the pandemic contributed significantly to the strong market performance in 2020-21, the reversal of these policies had the opposite effect.

Spiraling prices, partially due to higher energy, food, and housing costs, sent inflation rates to levels unseen in 41 years. Strong consumer demand for goods and services along with tight labor markets created the necessity for the Fed to try and make up for its prior complacency by taking an historically aggressive stance towards monetary tightening. By year's end, the Federal Funds Rate was hiked seven times for a total increase of 4.25%.

FOMC Meeting Date	Rate Change (bps)	Federal Funds Rate
Dec 14, 2022	+50	4.25% to 4.50%
Nov 2, 2022	+75	3.75% to 4.00%
Sept 21, 2022	+75	3.00% to 3.25%
July 27, 2022	+75	2.25% to 2.5%
June 16, 2022	+75	1.5% to 1.75%
May 5, 2022	+50	0.75% to 1.00%
March 17, 2022	+25	0.25% to 0.50%

Source: Forbes.com

In response, equity valuations contracted even though earnings continued to rise. The price investors were willing to pay for companies as a multiple of their future stream of earnings dropped significantly under the assumption that due to the Fed's actions, the economy and corporate earnings would eventually soften. Newer growth companies yet to show any profits were hit particularly hard with massive price declines.

Overall, a long-awaited shift in leadership from Growth to Value companies finally materialized in 2022. Led by Energy, Utilities, Industrial, and Healthcare sectors, these previously underperforming areas of the market either produced gains or served to help cushion some of the sharp declines in Technology, Consumer Discretionary, and Communication areas of a diversified portfolio. Although all major benchmarks posted losses, the Growth v. Value disparity was clearly evident in the results of the Dow -8.8% and the NASDAQ -33.1%, with the S&P 500 splitting these averages posting -19.4% for 2022.

As much as we might like, crossing into a new calendar year does not magically create a new investment or economic climate. Economies exhibit a cyclical process of boom and bust that has been witnessed for centuries. However, many of the expectations for 2023 have the potential to translate into what we believe can be better results for client portfolios this year. Much of it will be based on when the Fed can downshift to a less aggressive posture in its fight against inflation. Other key factors will be whether consumer spending remains robust, the labor market cools, and the severity of corporate earnings contractions. These data points will all take time to reveal themselves, during which markets are likely to remain volatile and range bound.

As investment managers, we recognize that steadfastness and a long-term time horizon are historically important aspects to strategic investment management but can prove frustrating and test one's patience during challenging times like these. We intend on remaining focused on quality and defensive equity areas as part of a well-diversified investment strategy.

It is our primary goal to help each of our clients achieve their unique investment and financial objectives, serving as their guide to navigate the ever-changing and often turbulent investment waters on this journey together.

Have a great week and a very happy new year!

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Market return and statistical data obtained from: https://am.jpmorgan.com/blob-gim/1383452890099/83456/weekly_market_recap.pdf?segment=AMERICAS_US_ADV&locale=en_US

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