THE WEISS REPORT

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Surging Inflation and Interest Rates Pressured Both Stocks and Bonds in 2022

Easing inflation pressures and a resolution of the fiscal turmoil in the United Kingdom fueled a strong rally in stocks and bonds early in the fourth quarter, but hawkish Fed guidance, disappointing economic data, and rising global bond yields weighed on markets in December and the S&P 500 finished the fourth quarter with only modest gains that capped the worst year for the index since 2008.

The end of the third quarter was volatile as global bond yields spiked in response to the spending and tax cut package proposed by former U.K. Prime Minister Liz Truss, and that volatility continued as the fourth quarter began with the S&P 500 hitting a new low for the year on October 13th. In part due to a very short-term oversold condition and following a no-worse-than-feared third-quarter earnings season, stocks and bonds staged large rallies in mid and late October and the S&P 500 finished the month with a substantial gain, rising 8.1%.

The positive momentum for stocks and bonds continued in early November thanks to a growing number of price indicators that implied inflation pressures had finally peaked. The October CPI report (released November 10th) showed the first solid decline in consumer price data for the year and that was echoed by price indices contained in national and regional manufacturing reports, as well as other official inflation statistics. Both stocks and bonds enjoyed solid gains in response to the data because while inflation remained far too high on an absolute level, markets hoped these declines would result in the Federal Reserve not raising interest rates as high as previously feared. Those hopes were boosted after the Thanksgiving holiday when Fed Chair Powell stated that interest rates would only need to rise "somewhat" higher than previous projections. Investors took that "somewhat" remark as a sign that previous estimates for rate hikes were too aggressive and that extended the rally into early December. The S&P 500 ended November at multi-month highs with another solid monthly gain of 5.6%.

However, investor optimism faded in December as global central banks signaled that they were still committed to aggressively hiking rates, economic data showed clear signs of slowing growth, and several negative earnings announcements raised concerns of an earnings recession in 2023. First, at the December meeting, the Fed revealed that they expected rate hikes to take the fed funds rate above 5% (from the current 4.375%), which was higher than market expectations. Then, economic data released in mid-December, including regional manufacturing indices and the November retail sales report, showed economic activity was slowing. Finally, both the European Central Bank and the Bank of Japan surprised markets with hawkish policy decisions, providing yet another reminder to investors that rates will continue to rise in 2023 despite clearly slowing global economic growth and the increasing threat of recession. Stocks dropped from mid-December on, and the S&P 500 ended the month of December with a loss of 5.90%.

In sum, 2022 was the most difficult year for investors from a return and volatility standpoint since the Global Financial Crisis. Multi-decade highs in inflation combined with historically aggressive Fed rate hikes and growing concerns about economic and earnings recessions to pressure both stocks and bonds. The S&P 500 posted its worst performance since 2008 while major benchmarks for both stocks and bonds declined together for the first time since the 1960s, punctuating just how disappointing the year was for investors.

Q4 and Full Year 2022 Performance Review

Unlike the first three quarters of 2022, when all four major indices saw quarterly declines, performance was mixed during the fourth quarter as the Dow Jones Industrial Average rose sharply, while the S&P 500 and Russell 2000 were solidly higher. Like most of 2022, however, the Nasdaq lagged and fell slightly in the fourth quarter. Expectations for higher rates, slowing economic growth and underwhelming earnings weighed on the tech sector in the fourth quarter, which was the case for much of 2022. Conversely, less economically sensitive companies that trade at lower valuations than tech stocks outperformed again as investors continued to shift towards defensive sectors amid growing recession fears. On a full-year basis, all four major indices posted negative returns, with the Dow Jones Industrial Average relatively outperforming while the Nasdaq badly lagged the other major indices.

By market capitalization, large-caps slightly outperformed small-caps in the fourth quarter, but modestly outperformed throughout 2022. Concerns about future economic growth and higher interest rates (which can impact small-caps disproportionately due to funding needs) were the main drivers of large-cap outperformance and small-cap underperformance throughout 2022. Small-cap stocks did show some resilience in the fourth quarter with the Russell 2000 index registering a solid gain as investors' hopes for a peak in inflation and ultimately interest rates, led to some dip buying in the segment.

From an investment style standpoint, value massively outperformed growth all year and that trend continued in the fourth quarter. Underwhelming earnings weighed on tech stocks in the final three months of the year, while concerns about slowing economic growth combined with rising bond yields hit richly valued tech stocks throughout 2022. Value stocks, meanwhile, were viewed as more attractive in the market environment of 2022 due to lower valuations and exposure to business sectors that are considered more resilient than high-growth parts of the market.

On a sector level, 10 of the 11 S&P 500 sectors finished the fourth quarter with a positive return, although only two of the 11 ended 2022 with gains. Energy outperformed other sectors not just in the fourth quarter but for all of 2022. In the fourth quarter, energy stocks were helped by progress on the post-Covid economic reopening in China which increased energy demand expectations, while a falling dollar was an added tailwind for commodities including oil and gas. More to that point, the other strong sector performers in the fourth quarter were industrials and materials, which also benefitted from an improving Chinese demand outlook and a weaker U.S. dollar. For the full year, energy was, by far, the best-performing sector in the market as an early-year surge in oil and natural gas prices in response to increased geopolitical risks and reduced Russian supply helped push energy stocks sharply higher. Defensive sectors, specifically utilities and consumer staples, were the next best-performing sectors finishing the year with small gains and losses, respectively, again as investors rotated towards less economically sensitive corners of the market amid rising recession risks.

The tech sector and those sectors with overweight exposure to high-growth companies badly lagged in the fourth quarter and over the course of 2022. In the fourth quarter, communication services were only fractionally positive while the consumer discretionary sector posted a negative return on weakness in high-growth internet and consumer stocks. For the full year, those same two sectors posted the worst returns in the S&P 500, as investors shunned richly valued, growth-oriented tech companies.

S&P 500 Total Returns by Month in 2022											
Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
-5.17%	-2.99%	3.71%	-8.72%	0.18%	-8.25%	9.22%	-4.08%	-9.21%	8.10%	5.59%	-5.90%

Source: Morningstar

US Equity Indexes	**Q4 Return**	**2022 Return**
S&P 500	7.56%	-18.11%
DJ Industrial Average	16.01%	-6.86%
NASDAQ 100	-0.04%	-32.38%
S&P MidCap 400	10.78%	-13.06%
Russell 2000	6.23%	-20.44%

Source: YCharts

Internationally, foreign markets handily outperformed the S&P 500 in the fourth quarter thanks to a large bounce in Chinese stocks as Beijing ended its "Zero-Covid" policy and commenced an economic reopening, while a falling dollar boosted global economic sentiment. Foreign developed markets outperformed emerging markets in the fourth quarter thanks in part to a large bounce in U.K. shares following the resignation of PM Truss and the abandonment of her fiscal spending and tax cut plan. For the full-year 2022, foreign developed markets registered solidly negative returns, but thanks to the fourth-quarter rally, relatively outperformed the S&P 500.

International Equity Indexes	**Q4 Return**	**2022 Return**
MSCI EAFE TR USD (Foreign Developed)	17.40%	-14.01%
MSCI EM TR USD (Emerging Markets)	9.79%	-19.74%
MSCI ACWI Ex USA TR USD (Foreign Dev & EM)	14.37%	-15.57%

Source: YCharts

Commodities saw gains in the fourth quarter as both oil and gold logged positive returns. A falling dollar paired with an improving outlook for Chinese demand as the government moved towards reopening their economy pushed oil higher throughout the quarter. Gold, meanwhile, saw steady gains in the final three months of the year thanks primarily to the decline in the U.S. dollar. For 2022, commodities posted a large, positive return due to the significant gains in oil futures and other energy commodities that came in response to geopolitically driven supply concerns following Russia's invasion of Ukraine. Gold, however, saw only a slightly positive return for 2022 as sharp rises in the U.S. dollar and Treasury yields midyear weighed on the yellow metal, limiting gains.

Switching to fixed income markets, the leading benchmark for bonds (Bloomberg Barclays US Aggregate Bond Index) realized a positive return for the fourth quarter but declined sharply for the full year of 2022, as more-aggressive-than-expected Fed rate hikes combined with decades-high inflation pressured most bond classes.

Looking deeper into the fixed income markets, longer-duration bonds outperformed those with shorter durations in the fourth quarter, as bond investors reacted to more-resilient-than-expected economic data. For the full year, shorter-term bonds handily outperformed longer-duration bonds as they were less impacted by Fed rate hikes and spiking inflation.

Turning to the corporate bond market, both higher-yielding, lower-quality corporate bonds and investment grade bonds posted similarly positive returns for the fourth quarter, as investors reacted to the possible peak in inflation. Lower-yielding and safer investment-grade corporate debt underperformed for the full year, however, as investors shunned those bonds for shorter-duration debt and corporate debt with higher yields.

Q1 and 2023 Market Outlook

Markets ended 2022 on a decidedly negative note and the December losses helped to ensure that 2022 was the worst year for stocks since 2008 and the worst year for bonds in multiple decades, as **both asset classes posted annual declines for the first time since the 1960s.**

The losses in stocks and bonds were driven by decades-high inflation, a historic Fed rate hike campaign and geopolitical unrest. But while those factors were clear negatives for asset prices in 2022, it's important to note that as we enter 2023, the market is approaching a potentially important transition period that could see each of these headwinds ease in the months ahead.

First, inflation has shown definitive signs of peaking and declining. The Consumer Price Index has fallen from a high of 9.1% in June to 7.1% in November, while other metrics of inflation have registered similar declines. Now, to be clear, inflation remains much too high in an absolute sense, but if price pressures ease faster than expected, that will present a positive surprise for markets in the first several months of 2023. Second, after a historically aggressive rate hiking campaign in 2022, the current Fed hiking cycle is likely nearly complete. In December, the Federal Reserve signaled that it expected the peak interest rate to be just

75 basis points higher than the current rate. That level could easily be reached within the first few months of 2023 and the Fed ending its rate hike campaign will remove a significant headwind from asset prices. Finally, while both economic growth and corporate earnings are expected to decline in 2023, **those negative expectations have been at least partially priced into stocks and bonds at current levels**. As such, if the economy or corporate America proves to be more resilient than forecasts, it could provide a positive spark for asset markets in early 2023.

As we start the new year, we should expect financial media commentary to be focused on the 2022 losses and current market risks, including earnings concerns and recession fears. But the market is a forward-looking instrument, and while there are undoubtedly economic and corporate challenges ahead in 2023, some of those best-known risks are partially priced into markets already, and the truth is that there are potential positive catalysts lurking as we start a new year.

More broadly, market history is clear: Declines of the magnitude we saw in 2022 are usually followed by strong recoveries, not further weakness. The S&P 500 hasn't registered two consecutive negative years since 2002, while bonds, represented by the Bloomberg U.S. Aggregate Bond Index, have never experienced two negative consecutive years. And that reality underscores an important point, that market declines such as we witnessed in 2022 have ultimately yielded substantial long-term opportunities in both stocks and bonds. The stagflation of the 1970s and sky-high interest rates of the early 1980s eventually gave way to the strong economic growth and market rally of the 1980s. The dot-com bubble burst of the early 2000s was followed by substantial market gains into the mid-2000s. The financial crisis, which remains the most dire economic situation we've experienced in modern market history, was followed by strong rallies in the years that followed, and not even the worst global pandemic in over 100 years could result in sustainably lower asset prices.

As such, while we are prepared for continued volatility and are focused on managing both risks and return potential, we understand that a well-planned, long-term-focused, and diversified financial plan is often best suited to withstand virtually any market surprise and related bout of volatility, including multi-decade highs in inflation, historic Fed rate hikes, geopolitical unrest, and rising recession risks.

We understand the risks facing both the markets and the economy, and we are committed to helping you effectively navigate this challenging investment environment. Successful investing is a marathon, not a sprint, and even intense volatility is unlikely to alter a diversified approach set up to meet your long-term investment goals.

We remain vigilant towards risks to portfolios and the economy, and we thank you for your ongoing confidence and trust. Please rest assured that our entire team will remain dedicated to helping you successfully navigate this market environment.

Please do not hesitate to contact us with any questions, comments, or to schedule a portfolio review.

Enclosure #1 – Our first enclosure is the Investment Strategy Quarterly piece from Raymond James. This provides a quick understanding of relevant themes in the investment world. Additionally it provides an economic snapshot as well as a tactical outlook. We like to include this in the Weiss Report as a handy two-page reference.

Enclosure #2 – Our second enclosure is a piece from Brian Wesbury from First Trust Advisors discussing the state of the housing market in 2023.

Enclosure #3 – Our last enclosure is a new writing from our team member Lenny Weiss. He discusses the "Double Bubble" he's seen in the market recently.

*Prices of DJIA and NASDAQ as of 10/07/2022 close.

INVESTMENT STRATEGY QUARTERLY QUICKVIEW

JANUARY 2023

THEMES

Recession or Reorder

The global economic landscape has undergone seismic shifts during the past three years. The economy and markets may recede for a period, but the backdrop for better long-term outcomes could improve dramatically as a result of this 'reordering.'

Path for the US Economy

We are forecasting a mild recession in 2023, during which we expect the economy to remain flat, and to start growing again at a rate of only 0.8% during 2024. The Federal Reserve (Fed) is expected to continue increasing the fed funds rate until March of 2023, and we expect inflation to be below 3% by the end of 2023.

'Income' Back In Fixed Income

Income and cash flow investors are presented with an opportunity to lock in higher yield levels. The (currently very) inverted yield curve is thought to precede a recession but is also an indicator of lower future rates. In our view, value lies in the intermediate part of the curves.

Compromise And Conflict On Capitol Hill

We view the outcome of the 2022 midterm election as a positive result for the market. Markets have historically favored split government, as it reduces policy uncertainty. In the 2023 agenda, we would focus on three things: must-pass legislation, potential areas of bipartisan compromise, and Senate confirmations.

Equities In Need Of Clarity

Equity markets will remain data dependent and require clarity from the Fed. We believe inflation will moderate over the next year, which will allow the Fed to back off. Don't lose sight of the bull market opportunity that will occur on the other side of the current weak trend.

Energy Security And Diversity In The Spotlight

Energy remains less than 5% of S&P 500 market cap—down from as much as 13% a decade ago—illustrating that this remains an under-owned, somewhat contrarian sector for investors. The European energy crisis is accelerating the global push to diversify the energy mix: not just away from Russian gas, but from imported fossil fuels more broadly.

Global Economy On Uncertain Path

The coming global weakness will see sluggish growth or even outright GDP contractions in most developed economies outside the United States, with the euro zone likely to fare worst. We enter 2023 defensively positioned with a preference for specific themes (renewable energy, energy infrastructure rebuilding) and for more resilient sectors and **stocks.**

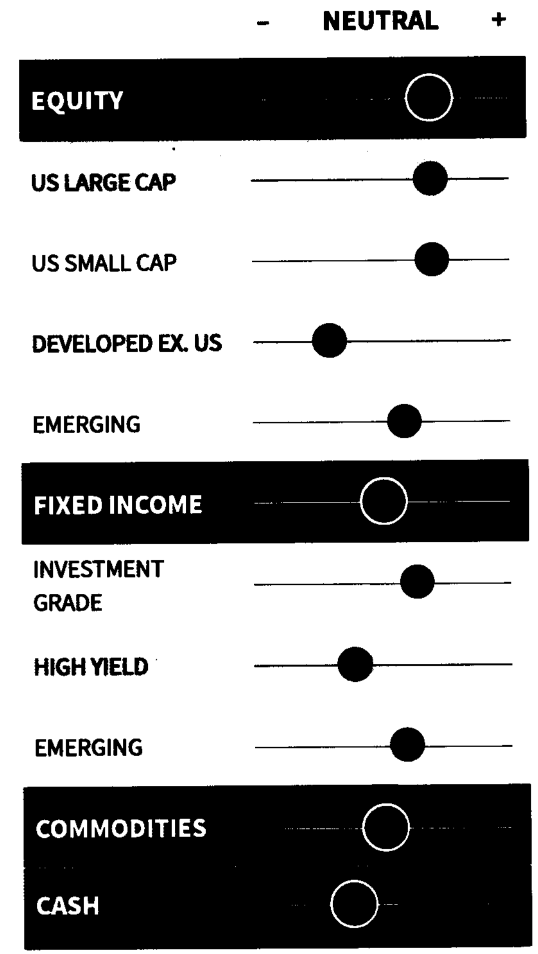
Economic Snapshot

Economic Indicator

NEUTRAL	GROWTH
	EMPLOYMENT
	CONSUMER SPENDING
	BUSINESS INVESTMENT
	INFLATION
	LONG-TERM INTEREST RATES
	FISCAL POLICY
	THE DOLLAR
	REST OF THE WORLD
UNFAVORABLE	MANUFACTURING
	HOUSING AND RESIDENTIAL CONSTRUCTION
	MONETARY POLICY

Eugenio J. Alemán, PhD
Chief Economist, Raymond James

Tactical Outlook



The tactical asset allocation outlook above reflects the Raymond James Investment Strategy Committee's recommendations for current positioning. Your financial advisor can help you interpret each recommendation within this material relative to your individual asset allocation policy, risk tolerance and investment objectives.

For more information, refer to the full Investment Strategy Quarterly.

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January 3, 2023

The Housing Outlook for 2023

The housing sector was a huge and early beneficiary of the super-loose monetary policy of 2020-21. But, once the Fed started tightening, housing took the lead downward, as well. This isn't a repeat of the 2006-11 housing bust, but it will drag on. Don't expect any real recovery in housing until at least late 2023 or early 2024. Home sales and prices will continue to drag in 2023, particularly in the existing home market.

From May 2020 until June 2022, both the national Case-Shiller price index and the FHFA price index rose more than 40%. But, since June 2022, Case-Shiller is down 2.4% and the FHFA is down 1.1%. The biggest declines so far have been out West, in San Francisco, Seattle, Phoenix, San Diego, and Las Vegas. But every major metropolitan area is down in the past three months, no exceptions.

The drop in home prices should continue. Prices got too high relative to rents and need to fall more to better reflect rental values. We expect a total decline, peak-to-bottom in the 5-10% range, nothing like the 25% drop in 2006-11. Why a smaller drop this time around? First, compared to the average of the past forty years, home prices are already close to fair value when measured against construction costs. Second, there is no massive excess inventory of homes, unlike during the prior housing bust. And, unlike during the subprime-era, the vast majority of homeowners with mortgages are locked-in at extremely low fixed rates, which means they will be very reluctant to sell.

The real effect of the change in interest rates is evident in the existing home market. Sales hit a 6.65 million annual rate in January 2021, the fastest pace since 2006. But, by November 2022, sales were down to a 4.09 million annual rate, a drop of 38.5% so far. Meanwhile a decline in pending home sales in November (contracts on existing homes) signals another drop in existing home sales in December.

Existing home buyers have two major problems: first, much higher mortgage rates, which means substantially higher monthly payments. Assuming a 20% down payment, the rise in mortgage rates and home prices since December 2021 amounts to a 52% increase in monthly payments on a new 30-year mortgage for the median existing home.

Meanwhile, it's hard to convince a current homeowner with a low fixed-rate mortgage to sell. If anything, it makes sense for them to ask for even more money if they'd have to take out a new mortgage elsewhere at a much higher rate. In other words, sellers should now want more for their homes, while buyers want to pay significantly less. This won't change soon and so expect existing sales to be even weaker in 2023 than last year.

New home sales are also down substantially since the COVID peak, but should find a bottom sooner. The key is that with a new home, the seller is a contractor. Also, housing has been underbuilt in the previous decade. The average price of a new home will likely fall, but we need more of them. And more houses will be likely be put in rental pools.

What's important to remember is that this business cycle isn't normal. COVID led to a massive surge in government stimulus, both monetary and fiscal, to fight widespread and overly draconian shutdowns. Housing is rarely a bright spot in recession years and this year should be no different. But don't expect a catastrophe like the prior bust and, once a recession is over, housing will rebound much more swiftly than after the Great Recession in 2008-09.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
1-3 / 9:00 am	Construction Spending – Nov	-0.4%	+0.1%	+0.2%	-0.3%
1-4 / 9:00 am	ISM Index – Dec	48.5	48.8		49.0
afternoon	Total Car/Truck Sales – Nov	13.4 Mil	13.3 Mil		14.1 Mil
afternoon	Domestic Car/Truck Sales – Nov	10.8 Mil	10.6 Mil		11.2 Mil
1-5 / 7:30 am	Initial Claims – Dec 31	225K	224K		225K
7:30 am	Int'l Trade Balance – Nov	-$63.7	-$62.5		-$78.2 Bil
1-6 / 7:30 am	Non-Farm Payrolls – Dec	200K	187K		263K
7:30 am	Private Payrolls – Dec	175K	170K		221K
7:30 am	Manufacturing Payrolls – Dec	8K	10K		14K
7:30 am	Unemployment Rate – Dec	3.7%	3.8%		3.7%
7:30 am	Average Hourly Earnings – Dec	+0.4%	+0.4%		+0.6%
7:30 am	Average Weekly Hours – Dec	34.4	34.5		34.4
9:00 am	ISM Non Mfg Index – Dec	55.0	55.4		56.5
9:00 am	Factory Orders – Nov	-1.0%	-1.3%		+1.0%

The Weiss Report
Volume 26, Number 1
Enclosure #3

The Double Bubble

By: Leonard A. Weiss

Last year we saw two financial bubbles collapse dealing enormous losses to speculators. I use the term speculator because investors traditionally use time to their advantage. Speculators on the other hand are more focused on quick growth. Financial bubbles see prices of assets rise sharply in a short period of time only to see the bottom fall out in just a few weeks. That's why, to me, bubble plays are not really investments in the traditional sense.

History provides multiples examples of financial bubbles. They occur because humans get caught up in greed/fear cycle that comes that drives a bubble's ascent. Patterns of human behavior haven't changed over the centuries. We have the greed of wanting to get rich quick, adding to the fear that we are missing out. "FOMO" is not new.

Financial bubbles are as old as trading markets. The earliest recorded financial bubble was Tulipmania which burst in 1637. At the time, Tulip bulbs were only grown in the South Pacific. French and Dutch speculators bid up the rights to own the bulbs (futures) before reaching Europe with intention of keeping the prices high when they resell them to the affluent. The rise and collapse took just a few months to play out.

In the last 40 years, I have witnessed three other financial bubbles. In the 1980s there was the Japanese stock market bubble. In 2000 the dot com bubble burst. And who can forget the real estate/mortgage bubble that burst in 2008. But 2022 saw the bursting of two financial bubbles. I cannot find another time in history where this has occurred. Hence the title Double Bubble.

One of the bubbles bursting in 2022 is what I call the Covid Bubble. When the virus hit, financial distortions occurred left and right. Many distortions were in areas that benefited from our staying in lockdown: telemedicine, indoor exercise equipment, home delivered cooked food or prepared meals to cook at home._Included in this list are electric trucks and automatous driving software. These stocks soared in value in the last six months of 2021. These same stocks were down 80%+ in 2022. A collapse of this magnitude rarely sees the asset return to its prior highs, and often is a precursor of bankruptcy.

A perfect example of this is Lordstown Motors (RIDE $1.42). The company used their IPO in 2020 to buy an assembly plant that GM was closing in Lordstown Ohio. They were going to build an E-truck but ran out of money in 2022 without seeing a single truck rolling off their assembly line. The IPO price was$10. During the lockdowns, the price shot up to $30 by the summer of 2021.

But when they announced they couldn't build the truck, and were nearly out of cash the stock fell to $1.25 by the end of 2022. The unsustainable rise took its valuation to almost $5 billion dollars when it hit $30. But now, with the stock near $1, the capitalization only $165 million dollars. You can see that a lot of money was flushed down a toilet chasing an idea that is not was not viable.

For context, the Standard and Poor's 500 Index (SP500) declined just over 20% in 2022 which seems tame when compared to the Covid bubble stocks declining 80%+.

But there was another bubble that burst in 2022 - The Bitcoin Bubble. Its rise and demise left millions of speculators with catastrophic losses. The rise of crypto currencies had a galactic rise over the last two years. The play was that an alternative currency, untraceable by the IRS, would rise to be the currency of international trade replacing the US Dollar.

But the Crypto Bubble burst in 2022, seeing Bitcoin fall from $65,000 to $16,000 (75%) in 2022. Speculators were wiped out. Bankruptcies are now common place among those promoting the coins and the infrastructure to trade them. With the bubble bursting, it became common place to hear that the small speculator lost much or all of their savings, which is typical when bubbles collapse.

Samuel Bankman-Fried stories are everywhere. The drop in crypto prices exposed that his company FTX was nothing more than a large Ponzi scheme. His story is parallel to the great fraudster of the last financial bubble to burst in 2008, Bernie Madoff. Every financial bubble has to have a villain. In this financial bubble it's Bankman-Fried.

If you took a 3-year price chart of Tulipmania and overlay a 3-year price chart of EV and crypto stocks you will be surprised at how almost identical they are, even though they occurred 385 years apart. That's because, as mentioned above, the players change over time but not the pattern of behavior.

We think bubbles are another greed/fear cycle that humans go through in different generations. All financial bubbles start with great expectations but end very badly. Is there any good news after financial bubbles burst? I think so. When the carnage of the collapse is known, most assets in the markets are at cycle lows. For those of us that do not participate in the bubble, it's a great time to buy stocks. Bull markets generally follow the financial bubble's demise.