QUARTERLY MARKET COMMENT
Fourth Quarter 2022

2022 has come to a close and we are glad to see it go. The stock market entered 2022 on a high, riding the strongest bull market since the 1930s. The S&P 500 rose 0.6% on the first day of trading and then the party was over. By June it marked the beginning of the 14th bear market (declining market greater than 20%) since WWII. What made the year so gut-wrenching and unique is that both stocks and bonds fell sharply. This has only occurred 6 times since 1926. It is also the only time in history that both the S&P 500 (-18.1%) and Bloomberg Barclays U.S. Aggregate Bond Total Return Index (-13.1%) fell by more than 10%. For the S&P 500, it was the worst year since 2008 and for the U.S. Aggregate Bond Index, it was the worst year on record. So much for making history. If it weren't for the positive moves in the 4th quarter, things could have looked much worse. As noted in the chart below, the markets bounced off their lows around October 14th and provided positive returns for the last quarter of 2022 in all areas except U.S. Government long-term bonds. The decline was global in scope. However, International stocks and commodities were also negatively impacted by a strong dollar. The only sectors that posted positive returns for the year were Energy, 65.72%, and Utilities, 1.57%.

In 2022 the economy faced a litany of macro challenges that set the stage for the most prolonged bear market since 2008-2009. The dislocations in the global economy, Russia's invasion of Ukraine, a labor shortage, and the most accommodative monetary policy in modern times led to a spike in inflation not seen since the 70s. By June, inflation peaked at 9.1%, the fastest rate increase since November 1981. Central banks initially believed inflation was transitory but shifted gears in March of 2022. They began raising interest rates from 0-0.25% to 4.25-4.50% by year-end. Rising interest rates have been a headwind for corporate profits, along with inflation and higher wages eating into profit margins. As a result, the growth in earnings decelerated at the steepest rate since 2011. On a positive note, unemployment remains very low at around 3.5% for a host of different reasons.

Asset Index Category	4Q 2022 %	Year 2022 %	Year 2021 %	10-Year Average %
S&P 500 Index-Large Companies	7.09	-19.44	26.89	10.41
S&P 400 Index-Mid-size Companies	10.29	-14.48	23.21	9.07
Russell 2000 Index-Sm Companies	5.80	-21.56	13.70	7.57
US Real Estate Funds	3.92	-25.67	38.73	5.80
Gold	9.45	-0.74	-4.28	0.01
US Commodities	4.17	15.74	29.74	-0.91
Global Real Estate Funds	7.37	-25.15	22.90	3.05
MSCI EAFE-Developed International	17.00	-16.79	8.78	1.94
MSCI EM Index-Emerging Markets	9.20	-22.37	-4.59	-0.98
Barclays US Aggregate Bond Index	1.87	-13.01	-1.54	1.06
Long US Government Bond Index	-1.41	-31.21	-6.80	-2.41
Emerging Market Bond Index	9.18	-14.34	-4.89	-0.56

Heading into 2023, the macro headwinds are still with us. The difference is we are already working through them. Determining if the path forward is a soft landing or a recession is less clear. A recession could bring new lows in the stock market and steeper earnings decline. A weaker economy may suggest the Fed will stop hiking interest rates as they are currently affirming. If a recession is avoided, the market lows made in October 2022 may have been it. This suggests more modestly positive earnings and a Fed that may continue to raise interest rates before pausing.

In either scenario, it is important to remember that the markets are a leading indicator of the economy. It is easy to get caught up in the short term. 2022 was ugly. Investing is about averaging the bad with the good. In the chart above we have listed the returns experienced in 2021 and the importance of focusing on the longer term, such as the 10-year returns. At some point, the markets will resume an upward trend. We just don't know when. This is why a buy-hold strategy makes the most sense. In the meantime, our portfolio positioning will remain broadly diversified in the bond and equity markets. Now that interest rates are higher, we are making some slight shifts in bond holdings where warranted. Please know that we are here for you as your thinking partner, your resource, and your guide. We truly value you as our client and we are grateful for the trust you've placed in us to help guide you through your financial life.

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