STRAIGHT TALK

4th Quarter 2022

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2022
Market Returns

Domestic Large
S&P 500
-18.11%

Domestic Small
Russell 2000
-20.44%

Intl Developed
MSCI EAFE
-14.01%

Emerging Markets
MSCI EM
-19.74%

Fixed Income
Bloomberg US
Aggregate Bond
-13.01%

**Returns are from YCharts, with dividends reinvested, and are through 12/31/22*

The last three years have taken investors on a wild ride, starting with the onset of Covid, followed by the lockdowns and the extreme stimulus measures that were put in place, and finally the breakout of inflation and the global central bank response. Most major central banks were in tightening mode throughout last year, led by the Federal Reserve here in the US. Short-term interest rates reached their highest levels since 2008, and inflation reached higher than it has since the early 1980s. This has resulted in an investment environment that is very different from what we have faced in the last 10-15 years. As things evolve in the post-Covid era, it remains important to not allow near-term murkiness to derail long-term investment objectives.

The fourth quarter of 2022 saw markets rally from the lows, but they ultimately ended the year in the red. While the losses in equity markets were generally higher on a percentage basis, the losses in bond markets were historic. The fastest hiking cycle in modern history, coupled with extremely low starting yields, led to some of the biggest losses ever seen in bonds. In our last StraightTalk, we talked about how bond math dictates that suffering the same losses again is highly unlikely. With the likelihood of far fewer rate hikes, and possibly even rate cuts, we expect that bond markets will have a much better year in 2023. The outlook for stocks is more difficult to predict. Many of the same issues that plagued markets in 2022 still exist and ongoing worries about an economic or earnings recession linger. However, a lot of negative expectations are already priced into markets. Even if a recession takes place, or if earnings decline in the short term, stocks may well rally higher if things prove to be even marginally better than expected.

Looking further ahead, there are both challenges and opportunities for equity investors. Technology stocks may not be accelerating as they have in the past, but innovation has not stopped. Select opportunities exist, particularly outside of the large bellwether companies that dominated the last decade of investing. Elsewhere, we saw energy stocks post tremendous gains last year, and Russia's actions in Ukraine have highlighted the need for energy independence. While fossil fuels might not be the long-term answer, there is no denying their importance here and now. For better or worse, the road to a cleaner future is still a dirty one, so for now, investing in a mix of traditional energy stocks along with renewables, has good prospects. It is estimated that over $100 trillion in new investment is needed to achieve net-zero carbon emission targets across the world. There are undoubtedly investment opportunities within this needed push. We are particularly interested in the higher degree of metals and minerals needed by cleaner technologies such as electric vehicles.

Another area of interest is demographic trends across much of the world. Last year China reported its first drop in population in 60 years, a problem that Japan, South Korea, and Europe have also been dealing with to varying degrees. While the overall population is not expected to decline here in the US, growth in the working population is expected to slow to the lowest levels in decades. Companies will be forced to invest in automation and other ways to drive efficiency as labor becomes harder and harder to find. New companies and industries will come into play while existing players in areas such as technology and industrials will rise to meet these challenges. These are the ideas that will guide our search for the investments that will lead markets higher during the inevitable next bull run.

There is little that can be said to make up for how tough 2022 was from an investing perspective. While challenges remain, we are excited about the prospects for markets going forward. We expect better things in 2023 and where appropriate, we will be looking to adjust positioning. Thank you as always for your continued trust and please contact us with any questions or concerns.

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