Market Monitor: January 2023

As 2023 gets underway, the markets seem to be signaling a bit of optimism. Investors saw a fourth quarter rebound that was much needed after a year of down markets and worrisome inflation and growth trends around the globe. Clearly, the most important data point in our collective consciousness is the monthly inflation number. All eyes rest on Fed Chair Jerome Powell as he and the board of governors attempt to steer the U.S. economy toward a soft landing where inflation cools and growth can be maintained. 2023 will bring clarity on this issue along with a host of other developments on tax changes, corporate earnings, and the ability of a newly divided government to muddle through until the next election.

Here we provide some updates on the most recent quarter and add some perspective that you may find useful.

4th Quarter Highlights

- The fourth quarter saw a welcome rebound from the recent depths of the market in September.
- U.S. stocks, as measured by the S&P 500 Index, finished the year down 18.1%. A disappointing performance to be sure, but perhaps not as bad as some investors had anticipated. Growth stocks weighed heavily on the market in 2022. The Vanguard Growth Index finished the year down 33.1%. By contrast, Value stocks held up quite well with the Vanguard Value Index declining only 2.0%.
- Energy, Utilities, and Consumer Staples were the top performers in 2022, while Real Estate, Technology, and Communication Services were the biggest losers.
- In an interesting turn of events, Non-U.S. developed stocks performed much better than their U.S. counterparts for the first time in many years. The MSCI EAFE Index of developed markets was down 14.5% during 2022. The FTSE Emerging Markets Index fared a little worse, losing 17.2% but

still beating U.S. stocks.

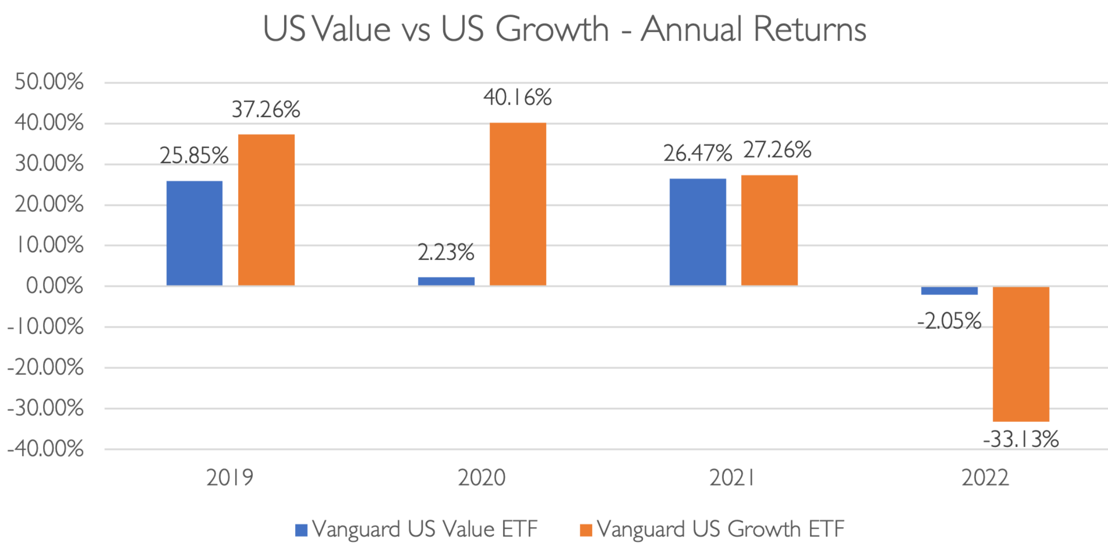
- Bonds also saw a bit of a comeback in the fourth quarter as inflation pressures eased. The Bloomberg US Aggregate Bond Index finished the year down 13.0%.
- As we now know, this was a historically bad year for bond investors who are conditioned for low to moderate predictable returns. The path of 10-year Treasury yields tells the story, increasing from 1.51% at the beginning of 2022 to 3.88% by year-end. Bond investors require more compensation for a rapid increase in inflation, and the yield change reflects this adjustment. While this move has been painful, it now means that investors may see yields of 4.5% or more on a diversified fixed income portfolio, making bonds much more attractive as an asset class going forward.
- The December CPI reading showed a 6.5% increase compared to the same month in 2021. While still high, the number is down from its peak last June of 9.0% and headed in the right direction.
- The Federal Reserve has now raised short term interest rates to 4.5% and they plan to continue this move, albeit at a slower pace, assuming inflation data cooperates.
- On a positive note for savers and investors, the inflation upside surprises have resulted in substantial adjustments in Social Security amounts for 2023 and higher limits on contribution levels in retirement plans. Please stay tuned for our upcoming newsletter with some of these highlights.

Three Big Things

Here we review some emerging trends that may be important for investors and their portfolios. We look at the contrast between value and growth returns, the recent drop in rent growth, and some encouraging trends in producer prices.

Value vs. Growth

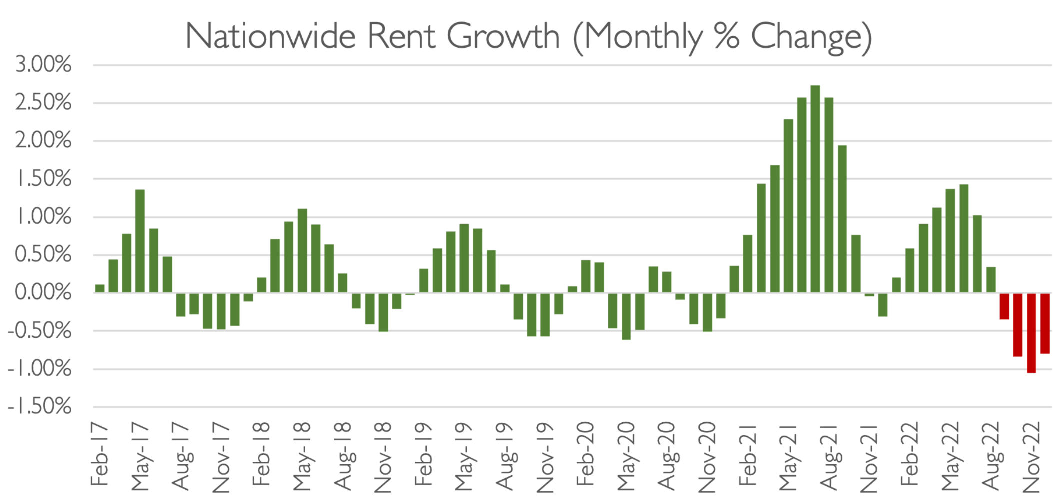
From the end of the Credit Crisis in 2009 until the end of 2021, growth stocks truly lived up to their name, vastly outpacing value stocks. Valuations increased substantially, driven largely by the tech sector. In 2022 however, the tide turned and value stocks led the way. We will see if this trend continues in 2023.



Source: Vanguard.com

Rent Growth Slowing

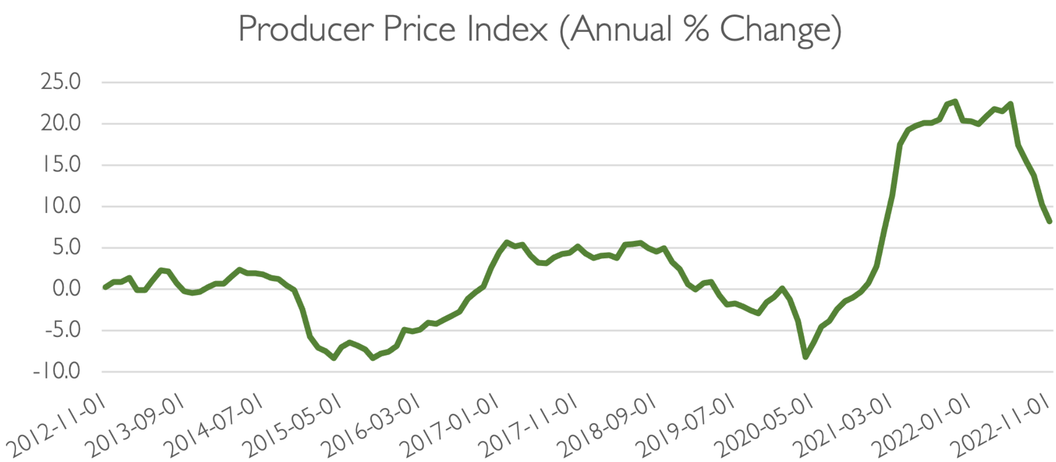
Real estate rental rates, one of the main drivers of inflation over the last 18 months, have seen a substantial slowdown in the last part of the year. This may translate into further reductions in CPI growth as other factors continue to head in a similar direction.



Source: www.apartmentlist.com/research/category/data-rent-estimates

Producer Prices

Many investors are now very familiar with CPI, a measure of the monthly change in prices paid by consumers. The Producer Price Index (PPI) measures the monthly change in the input cost to the producers of goods and services. It provides a window into the prices of commodities. From the chart below we can see that the annual percentage growth in PPI peaked in late 2022 and is now cooling rapidly.



Source: *U.S. Bureau of Labor Statistics, Producer Price Index by Commodity: All Commodities [PPIACO], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/PPIACO, January 10, 2023.*

2023 will bring change in many areas of our financial lives, but as always, the basic principles of disciplined wealth management stay the same. We look forward to connecting with you to review your wealth management plan in the coming months. Please do not hesitate to reach out to us at any time as questions arise.

Please find this newsletter and others on our website at www.gardecapital.com.

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