December 30, 2022

Weekly Recap

2022 has been a turbulent year to say the least. It began with a high level of volatility as investor sentiments deteriorated on expectations of U.S. Federal Reserve rate hikes and elevated inflation data. Volatility intensified as the Russian-Ukrainian war began, sending oil and gas prices to multi-year highs. As a result, the energy sector was a strong outperformer, recording the only positive sector return this year, +59%. The equity market undoubtedly favored value stocks over growth stocks, with a nearly 20% outperformance for these underpriced securities. Small-cap stocks have only underperformed the S&P 500 by a couple of percentage points. Treasury yields have also been exceptionally volatile, rising due to the anticipation of central bank rate hikes. By the end of the year, the Federal Reserve increased the federal funds target range to 4.25-4.5% including four consecutive +75 basis points hikes (and three smaller rate hikes), the largest level of rate increases in 28 years. In December, the 2-10 Treasury yield curve spread demonstrated its biggest inversion in four decades, indicating rising concerns for a potential recession in 2023. The broader macroeconomic backdrop remained challenging for many companies. Supply chain disruptions, challenging foreign exchange translations, and China lockdowns were headwinds mentioned on many earnings calls. The housing market softened as mortgage rates began to spike due to inflation, but rates have declined in the last few weeks of the year. Ironically, consumers have shown resilience in the face of these challenges with minimal changes in their spending patterns. Employment also remains stronger than what we would normally see given our current economic situation. The equity market finished down for the year, its worst since 2008, while bonds suffered their worst year on record.

Key Thought for The Week

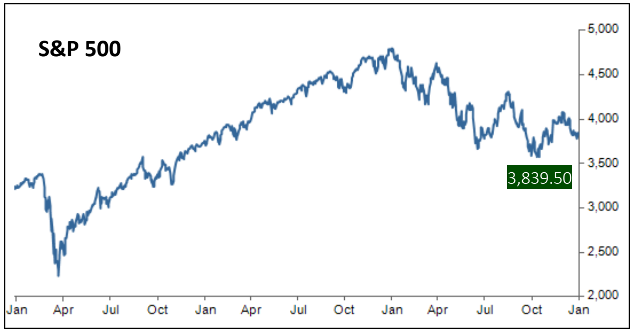
Investors enter the new year facing high uncertainty regarding the economy and earnings. Although inflation has peaked, it is still running at an unusually high level and certainly well ahead of the Fed's target. The labor market remains relatively strong, and consumers still have a healthy level of reserves, making the Fed's task of dampening demand and inflation more difficult. Much of the impact of the Federal Reserve's dramatic increase in the Fed funds rate in 2022 has yet to fully permeate through the economy. Higher rates typically work with a six-to-twelve-month lag. Economists generally expect the domestic economy to soften, and many believe the economy will slip into a recession during 2023. Analyst earnings expectations do not reflect a materially weaker economic environment. The lack of clarity has many strategists anticipating volatility and higher risk in the first half of 2023. It is worth remembering, however, that much of the excess and risk has been rung out of the markets in 2022 and valuations have been reset lower, creating a better long-term opportunity.

12/30/2022 STOCKS	Close	Wk Net Change	Wk % Change	Div Yield	YTD % Change	12 Mos % Change
DJIA	33,147.25	-56.68	-0.17	2.07	-8.78	-8.93
S&P 500	3,839.50	-5.32	-0.14	1.76	-19.44	-19.65
NASDAQ	10,466.48	-31.38	-0.30	1.01	-33.10	-33.51
S&P MidCap 400	2,430.38	-4.77	-0.20	1.84	-14.48	-14.40
EAFE	1,955.48	9.00	0.46	3.40	-16.29	-16.24
Emerging Market	957.45	-6.61	-0.69	3.21	-22.29	-21.70

TREASURIES	Yield
2-Year	4.43
5-Year	4.00
10-Year	3.88
30-Year	3.97

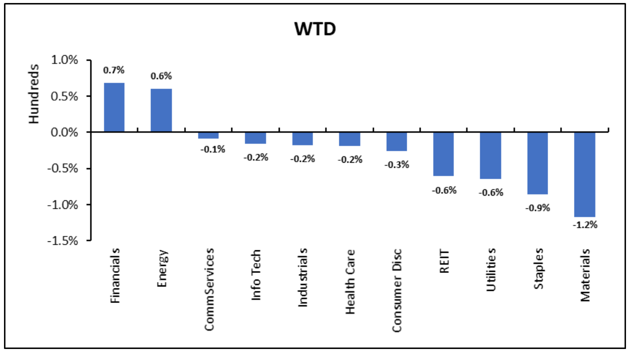
FOREX	Price	Wk % Change
USD/EUR	1.07	0.79
JPY/USD	131.12	1.37
USD/GBP	1.21	0.33
CAD/USD	1.35	0.46

Source: FactSet/Bloomberg



Sector - Large Cap

	Close	Wk Net Change	WTD	MTD	QTD	YTD
Defensive						
Staples	779.13	-6.74	(0.9%)	(3.1%)	12.0%	(3.2%)
Health Care	1,585.54	-2.99	(0.2%)	(2.0%)	12.3%	(3.6%)
CommServices	159.37	-0.13	(0.1%)	(7.8%)	(1.6%)	(40.4%)
Eco Sensitive						
Consumer Disc	1,005.48	-2.62	(0.3%)	(11.3%)	(10.4%)	(37.6%)
Energy	672.34	4.01	0.6%	(3.2%)	21.7%	59.0%
Industrials	831.40	-1.46	(0.2%)	(3.1%)	18.7%	(7.1%)
Info Tech	2,172.17	-3.37	(0.2%)	(8.4%)	4.4%	(28.9%)
Materials	489.55	-5.83	(1.2%)	(5.8%)	14.4%	(14.1%)
Interest Rate Sensitive						
Financials	569.74	3.85	0.7%	(5.4%)	13.0%	(12.4%)
Utilities	358.48	-2.32	(0.6%)	(0.8%)	7.8%	(1.4%)
REIT	232.37	-1.42	(0.6%)	(5.5%)	2.8%	(28.4%)



COMING UP NEXT WEEK		Consensus	Prior
01/03 Markit PMI Manufacturing SA (Final)	(Dec)	46.2	46.2
01/04 ISM Manufacturing SA	(Dec)	48.0	49.0
01/04 JOLTS Job Openings	(Nov)	-	10,334K
01/05 Markit PMI Services SA (Final)	(Dec)	44.4	44.4
01/06 Nonfarm Payrolls SA	(Dec)	217.5K	263.0K
01/06 Unemployment Rate	(Dec)	3.7%	3.7%
01/06 Durable Orders SA M/M (Final)	(Nov)	-0.40%	-2.1%
01/06 Factory Orders SA M/M	(Nov)	-0.40%	1.0%
01/06 ISM Services PMI SA	(Dec)	54.5	56.5

Russell Style Return

WTD	Value	Blend	Growth
Large	0.16%	(0.08%)	(0.33%)
Medium	(0.09%)	(0.05%)	0.02%
Small	0.04%	0.08%	0.12%

YTD	Value	Blend	Growth
Large	(7.56%)	(19.14%)	(29.14%)
Medium	(12.06%)	(17.33%)	(26.71%)
Small	(14.50%)	(20.46%)	(26.39%)

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