Quarterly Economic Update
Fourth Quarter 2022

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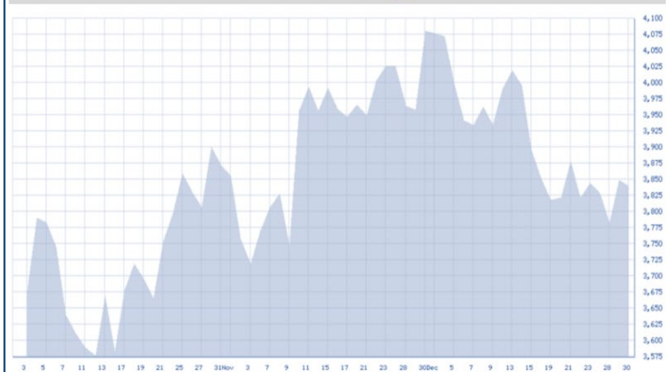
COMPREHENSIVE RETIREMENT STRATEGIES

It's probably a fair assumption to say that most investors are happy 2022 is in the books. Although the yearly results were discouraging, the fourth quarter of 2022, despite its volatility and uncertainty, brought slight improvements in the U.S. equity markets. The Dow Jones Industrial Average (DJIA) closed out at 33,147.25, ending the year down 8.8%. Similarly, the S&P 500, closed at 3,839.50 to close out the year down 19.4%.

(Source:cnbc.com 12/29/22)

During 2022, inflation, rising interest rates, slowing economic growth, the weakening of fiscal and monetary stimulus - all packed a bearpaw-sized punch to investor's portfolios. Recession fears also played a key role in the direction of the market. All these major factors allowed volatility to prevail and investors rode a steady downward trend throughout the year. 2022 was a solid practice in emotional resilience and trust in the long-term perspective of investing.

S&P 500 Q4/2022 7.08%



DJIA Q4/2022 15.39%

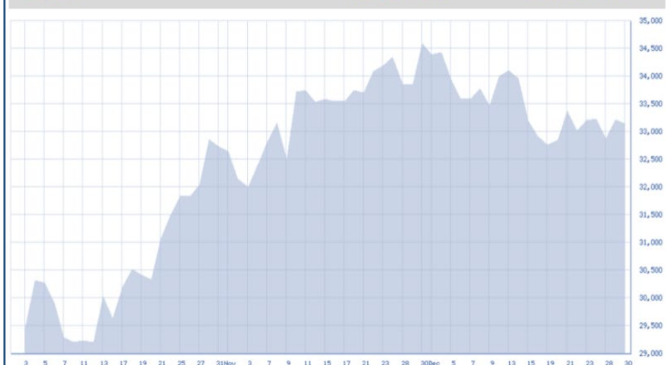


Chart Source: www.bigcharts.com

MONEY RATES

(as posted in Barron's 12/26/2022)

	LATEST WEEK	YR AGO
Fed Funds Rate*	4.34%	0.08%
Bank Money Market^z	0.25%	0.07%
12-month Certif^z	1.35%	0.14%

z – Bankrate.com (Source: Barron's; bankrate.com)
** - Average Effective Offer*

On a positive front, the Fed's efforts to slow down the rate of inflation finally began to show quantifiable results. The U.S. annual inflation rate experienced a slowing down and was 7.1% for the 12-months ending November 2022.

As we look toward a new year, multiple factors remain key issues for the direction of equity markets, most particularly, the continuation of rising interest rates, and speculation of if, how long, and how deep of a recession the U.S. and global economy could see in 2023 and beyond. Uncertainty remains and wise investors should have a sufficiently diversified portfolio that looks for balance in times of volatility. This is a key time to practice patience and to remain focused on your personal long-term goals.

As we close out what was undoubtedly a rough year for equity markets, investors are bracing for another potentially mercurial year. As your financial professional, we are committed to keeping you apprised of any changes and activity that could directly affect you and your unique situation.

KEY TAKEAWAYS

- The Fed raised interest rates twice in the fourth quarter, ending the year at target rate range of 4.25 – 4.50%. This marked a 4.25% total rate increase in 2022, the fastest upward cycle in history.
- The Fed is positioned to further increase federal interest rates in 2023.
- Inflation showed signs of slowing down, with a rate of 7.1% for the 12-month period ending November.
- Recession concerns are on the rise.
- Treasury yields are providing favorable returns.
- Volatility will remain in the economic environment as we enter 2023.
- Staying the course and maintaining the consistency of a well-devised, long-term focused plan has historically served investors well.

We are here for you to discuss any concerns you have.

INFLATION & INTEREST RATES

In 2022, Americans saw seven federal interest rate increases, ending the historically low interest rates that were enjoyed since the “Great Recession” from 2007-2009.

In their efforts to use interest rate increases to lower inflation, the Fed raised interest rates twice in the fourth quarter of 2022. In November, rates increased 0.75% for a target rate range of 3.75 – 4.00%. Then, as planned, the Fed again raised rates at the December meeting. However, because inflation started to show potential signs of slowing down in the months prior, the Fed raised it by only 50 basis points, for a target rate range of 4.25 – 4.50%. This marked a 4.25% total rate increase in 2022, the fastest upward cycle of interest rates in history.

The labor market remains a key factor in how the Fed will adjust its attack on inflation and when and how fast it will change policy. Job growth remained strong in November, keeping the unemployment rate at 3.7%. At their December FOMC meeting, the Fed predicted a rise in the unemployment rate, looking at 4.6% by the end of 2023. Later in the month of December the unemployment rate actually moved to 3.5%.

(Source: Bureau of Labor statistics)

Fed Chair Jerome Powell suggested that in 2023 we may not see as sharp of increases as this year, when rates were quickly increased to jump start the Fed’s key weapon to fight inflation. It is likely that at the Fed’s first meeting on February 1, 2023, they will continue to raise rates, but potentially by a smaller percentage point than we have seen in the past several rate changes. Regardless of how the Feds adjust their tactics, it is expected that they will continue to be in a tightening approach toward inflation until they see a weakening in the labor market.

“It’s very premature in my view to think about or be talking about pausing our rate hikes,” said Powell at the November press conference following the Federal Open Market Committee (FOMC) meeting. At their December meeting, the FOMC shared their economic projections that pointed to a possible interest rate range of 4.75 – 5.75% in 2023. "It's not as important how fast we go," he stated, "Our focus right now is really on moving our policy stance to one that is restrictive enough to ensure a return of inflation to our 2% goal over time," Powell said. (Source:reuters.com, 12/14/22)

Results for U.S. inflation peaked in the fourth quarter and both headline and core Consumer Price Index (CPI) readings showed significant year-over-year declines to close out the year. The annual U.S. inflation rate for the 12-month period ending November 2022 was 7.1%, down 2% from June’s 12-month period high of 9.1%. This denoted progress in the Fed’s fight to slow the rate of inflation down.

(Source: usinflationcalculator.com)

This was the data investors had long been waiting for and they expressed their approval by sparking quick, but short-lived equity market relief rallies. This initial descent from the inflation summit can be encouraging, but it takes more than one data point to make a trend. We will monitor inflation numbers as the 2023 data becomes available.

The Fed is watching other key economic indicators in addition to unemployment rates, including personal consumption expenditures (PCE), and consumer price index (CPI). "The inflation data received so far in October and November show a welcome reduction in the pace of price increases, but it will take substantially more evidence to give confidence inflation is on a sustained downward path," Powell said at the December FOMC meeting.
(Source:reuters.com, 12/14/22)

We will keep a vigilant eye on the federal interest rate movements and inflation. When rates will stagnate and for how long they will remain there is yet to be seen.

Due to the continued rise of interest rates, we continue to suggest that, if you haven't already done so, please take a look at these key areas of your financial situation:

- The cost of borrowing is up, therefore:
  - ✓ proactively pay off all non-essential interest-bearing debt.
  - ✓ maintain liquidity for short-term purchases.

- If you have a mortgage, review your rates with us. Mortgages rates have hit a two-decade high, reaching above 7%. While home prices are still robust, this sharp rate increase is bringing down home prices.

- If you have bonds in your portfolio, understand their duration.

- Review all income-producing investments.

THE BOND MARKET AND TREASURY YIELDS

Simply put, bonds had a terrible year as the bond market had one of its worst years in history. The total return of the Bloomberg Aggregate Bond Market Index (which dates back to 1976) of -13% in 2022 was far and away the worst loss ever for this total bond market index. For those with S&P U.S. Treasury Bonds, the return was -10.7% in 2022. (Source:cnn.com, 12/30/22)

Bond prices and bond yields are inversely related. When prices go down, yields go up.

Now that rates have risen, Treasury yields in this environment can be a viable asset class for a diversified portfolio. As of December 30, 2022, 5-year notes yielded 3.99%, 10-year notes yielded 3.88%, 20-year notes yielded 4.14%, and 30-year notes reached 3.97%. The 1-year treasury rate reached 4.73% on December 30 after a fourth quarter high of 4.80% on November 7. (Source: ycharts.com)

Investing in bonds can help diversify your portfolio. Bonds can be a good option for a conservative, balanced portfolio, as they are

2022 Treasury Yield Comparisons

January 4, 2022				December 29, 2022			
5-year	10-year	20-year	30-year	5-year	10-year	20-year	30-year
0.36%	0.93%	1.46%	1.66%	3.94%	3.83%	4.10%	3.93%

Source: ycharts.com

typically considered more stable than stocks. However, bond investing, particularly when considering individual bonds, can be tricky. The window of opportunity to get lower-risk, higher yielding bonds could be short-live if the Fed's feel the need to cut rates to prevent a recession. As we have already shared, bond prices and interest rates move in the opposite direction. Should the Fed decide to do a reversal and cut rates, the opportunity for this strategy could expire.

Also, please remember, while diversification in your portfolio can help you reach your goals, it does not ensure a profit or guarantee against loss. If you'd like to explore how bonds could fit into your retirement income strategy, please contact us so we can help you make the best decision for your portfolio.

INVESTOR'S OUTLOOK

News of a recession remains front and center. Many analysts fear the Fed's hawkish moves to fight inflation at the expense of economic growth is driving the U.S. into an inevitable recession. However, at the December FOMC meeting, the Fed projected an economic growth of 0.5% in 2023. Although very modest, it is still positive growth. (reuters.com, 12/14/22)

"Two-in-three economists are forecasting a recession in 2023, yet corporate earnings estimates haven't come down to reflect that," noted Greg McBride, CFA at Bankrate. He continued, "If the economy continues to slow and quarterly earnings calls in January reveal a dour outlook for the year, corporate earnings estimates will be marked down and the market could have a renewed tumble."
(Source: bankrate.com 12/28/22)

Many experts also maintain that the current inverted yield curve (short-term rates are higher than some long-term rates) is indicative of a recession. However, if, when, and how severe a recession should occur in 2023 is all still speculation.

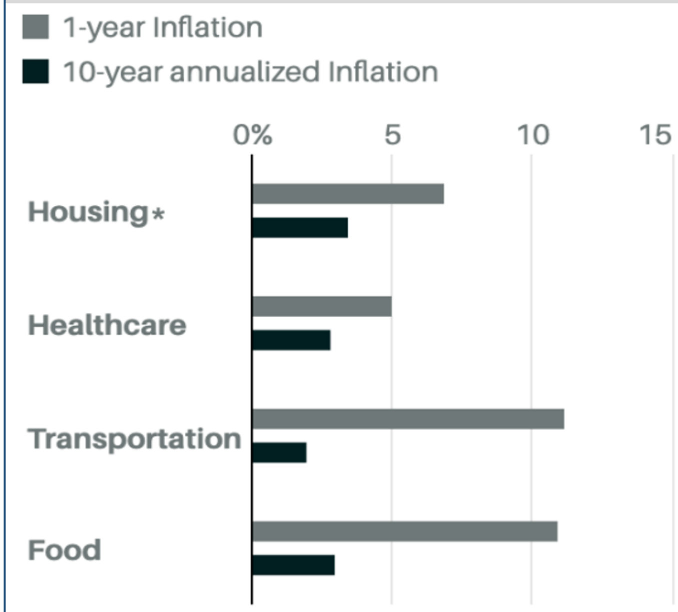
Some economists believe the U.S. will narrowly avoid a recession as core PCE inflation slows from 5% now to 3% and we will continue to see a reasonable unemployment rate in late 2023. (Source: goldmansachs.com 11/16/22)

Even with the possibility of a recession on the horizon, the Feds still stand by their goal of a 2% inflation target. Chair Jerome Powell stated, "the largest amount of pain, the worst pain, would come from a failure to raise rates high enough and from us allowing inflation to become entrenched."
(Source:reuters.com, 12/14/22)

As the Feds keep tightening monetary policy, consumers may need to continue to tighten their budgets. From food, fuel, energy, and everything in between, Americans are paying more for just about everything. Refocusing and revamping your budget now could provide direction and clarity on where your money is going, what is a necessary expense, and what is discretionary in this new year.

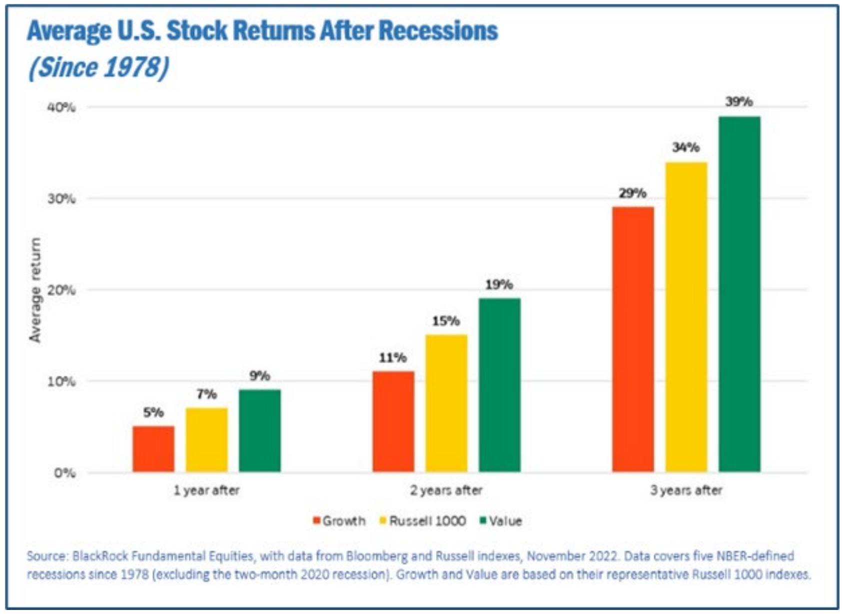
The bear market is expected to continue at least into the first part of 2023. Bear markets are a very normal and reoccurring part of the investment experience. How long this bear market will last is yet to be seen. While no one can predict its end, history shows that the average bear market since the modern S&P 500's inception in the 1920s lasted an average of 19 months (Source: cnb.com; 6/13/22)

2022 a Year of Higher Expenses



All Americans felt the pinch of inflation and were affected by the past year's fast incline of living costs. Expenses increased across the board in 2022.

Sources: fidelity.com, CPI Program of the Bureau of Labor Statistics
**Housing is shelter only, not other housing-related costs.*
One year – 10/21-10/22; 10 year – 10/12-10/22



While we can all try to foresee the future, no one can predict the length or severity of any recession. However, while past performance is not a guarantee of current or future results, history shows us that returns from equities after a recession have been fruitful.

Some key areas we are watching for 2023 include:

- Inflation rates
- Continued rising interest rates
- Economic growth rate
- Tightening of monetary policy

Although these areas are at the forefront, we must also look at other ongoing global concerns, including:

- The Russian-Ukraine war is still very active, with no end in sight.
- China's "re-opening" after their strict "zero-COVID" policy was lifted is off to a slow start.
- Slow global growth. Some analysts suggest that global growth will only be at 1.7% in 2023, down from the approximately 6% growth rate in 2021 and 3.2% growth rate in 2022.
  (Source: Barclays Q1 2023 Global Outlook)

The Fed's goal is to achieve a "soft landing" but balancing the fine line of avoiding a recession yet slowing growth enough to put the brakes in inflation is a daunting battle it will continue to wage into 2023. What does this mean for investors? Continued uncertainty and volatility.

Interesting Financial Statistics in 2022

How do you stack up?

- The **average 401(k)** balance of people between the age of **60-69 is $182,000**.
- **21%** of American's have **no retirement savings.**
- **33%** of baby boomers have **only between $0 – 25,000 in retirement savings**
- **40%** of Americans are likely to **fund a purchase with a credit card.**
- **70%** of Americans think their **financial planning needs improvement.**

Having a solid financial plan that is designed for your unique situation can help make your journey toward your goals easier. As stewards of your hard-earned money, our goal is to provide you holistic financial care and guidance. ***As always, we are here for you and look forward to serving you in 2023!***

(Source: einvestingforbeginners.com)

We stand by the mantra of "proceed with caution". Patience will indeed be a virtue as the current financial markets we are experiencing will continue to be challenging. Two words should resonate with wise investors during these times: long term. **Investing in equities should be viewed as a long-term commitment.** Historically, investors who chose to ride out bear markets were rewarded for their patience with healthy returns.

We always recommend discussing with us any changes, concerns, or ideas that you may have prior to making any financial decisions so we can help you determine your best strategy. There are often other factors to consider, including tax ramifications, increased risk, and time horizon changes when altering anything in your financial plan.

As always, please feel free to contact us with any concerns or questions you may have.

We pride ourselves in offering:

- Individualized advice tailored to your specific needs and goals.
- Consistent and meaningful communication throughout the year.
- A schedule of regular client meetings.
- Continuing education for all our team members on issues that may affect you.
- Proactive planning to navigate the changing environment.

Remember, a skilled financial professional can help make your financial journey easier. Our goal is to understand your needs and create an optimal plan to address them.

Financial Checkup

When partnering with ETHOS you will receive personal and customized service that is supported by a wealth of timely information and knowledge. In a changing landscape, Holistic Retirement Planning can help protect you and your loved ones against the unknown by creating road maps that pivot on your needs. To schedule your financial check-up, please call the ETHOS *Client Service Specialist*, Cindy Grosso, at (267) 410-1487.

Has your advisor reviewed your tax forms to understand how to coordinate your investments with your taxes?

☐ **Yes** ☐ **No** ☐ **Not Sure**

Has your advisor discussed tax planning strategies that could help you keep more of what you make?

☐ **Yes** ☐ **No** ☐ **Not Sure**

Is your advisor updated and current on tax planning strategies?

☐ **Yes** ☐ **No** ☐ **Not Sure**

If you answered No or Not Sure, please consider scheduling a complimentary meeting with one of our professionals.

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