

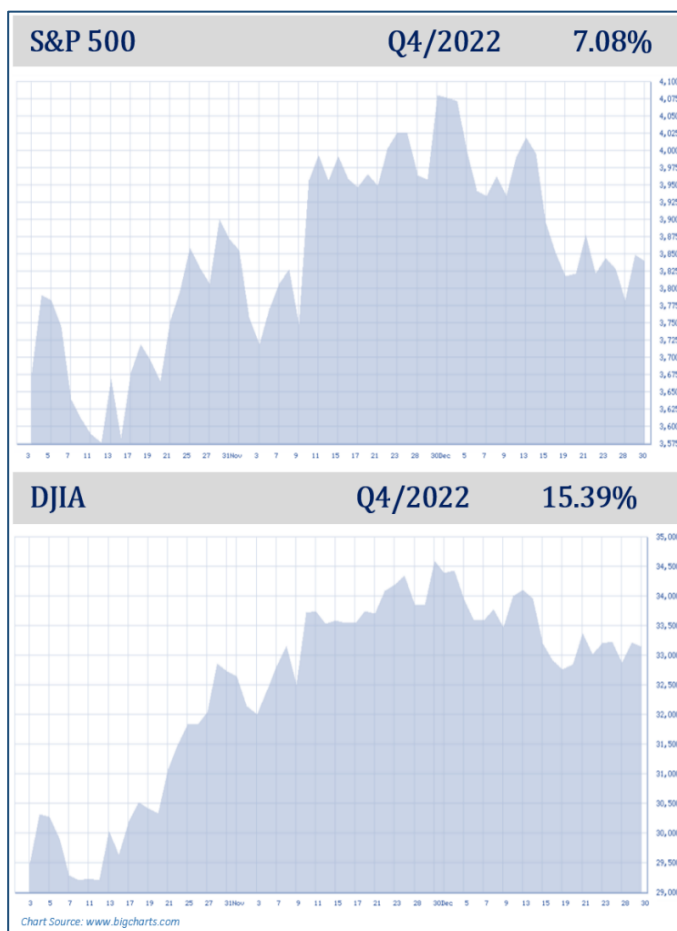
It's probably a fair assumption to say that most investors are happy 2022 is in the books. After enjoying the longest bull market in history, from after the financial crisis in 2009 to the beginning of the COVID-19 pandemic, the bear finally officially rose from its slumber and dominated Wall Street. There's no sugar-coating the fact that if you had money invested in the financial markets in 2022 it was an unpleasant year, perhaps even one of the worst you will experience as an investor. 2022's equity market loss was the 7th worst loss since the 1920s and the bond market also had one of its worst years in history. It was the worst year since 2008 for all three major indexes. Fortunately, as a new year begins, all that matters is what happens from here, not what happened in the past.

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.

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 around rates, and how long and how deep of a recession the U.S. and global economy could see in 2023



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

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.**

Inflation & Interest Rates

During 2022, Americans saw seven federal interest rate increases. In their efforts to use interest rate increases to lower inflation, the Fed ended a decade of historically low interest rates and raised 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, to a 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. Employment remained strong in December with the unemployment rate announced as 3.5%. (Source: Bureau of Labor statistics)

Fed Chair Jerome Powell suggested that in 2023 we may not see as sharp a rate of increases as in 2022, but he cautioned that "It's very premature in my view to think about or be talking about pausing our rate hikes." 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," Powell 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." (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)

KEY TAKEAWAYS

- The Fed raised interest rates twice in the fourth quarter, to a range of 4.25 – 4.50% for 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 slowing signs, 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 remains an investor fear in 2023.
- Staying the course and maintaining a well-devised, long-term focused plan has historically served investors well.
- ***We are here for you to discuss any financial concerns you have.***

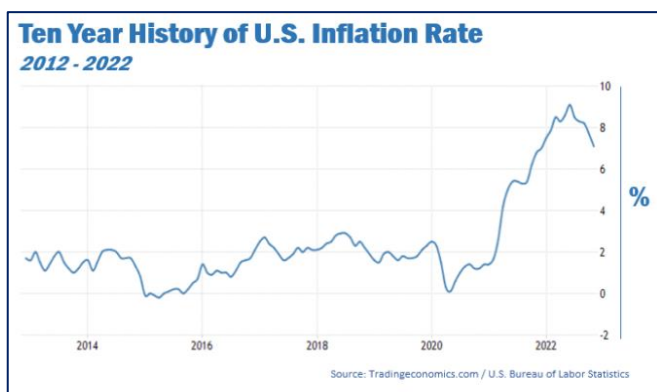
Due to the continued rise of interest rates, here are some key areas we like to remind client of:

- The cost of borrowing is up, therefore, proactively pay off all non-essential higher interest-bearing debt and maintain liquidity for short-term purchases.
- If you have a mortgage, we would be happy to review your rates.
- If you have bonds in your portfolio, understand their duration.
- Review all income-producing investments.

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.

The Bond Market and Treasury Yields

Simply put, bonds had a terrible year and the bond market had one of its worst years ever. 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)



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%, 20-year notes yielded 4.14%, and the 1-year treasury rate closed at 4.73%. (Source: ycharts.com)

Bonds are often a good diversification option for a conservative, balanced portfolio, as they are 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. Keep in mind, 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.

We will continue to monitor how the Fed's movements and rising interest rates are affecting bond yields. As your financial professional, we are committed to keeping a vigilant eye on all aspects of financial planning that may affect you, including interest rates and inflation. If you are concerned about how these may affect your portfolio, please contact us to discuss any strategies that may help combat the effect on your personal situation.

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. (Source: 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. 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 reasonable unemployment rates 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.

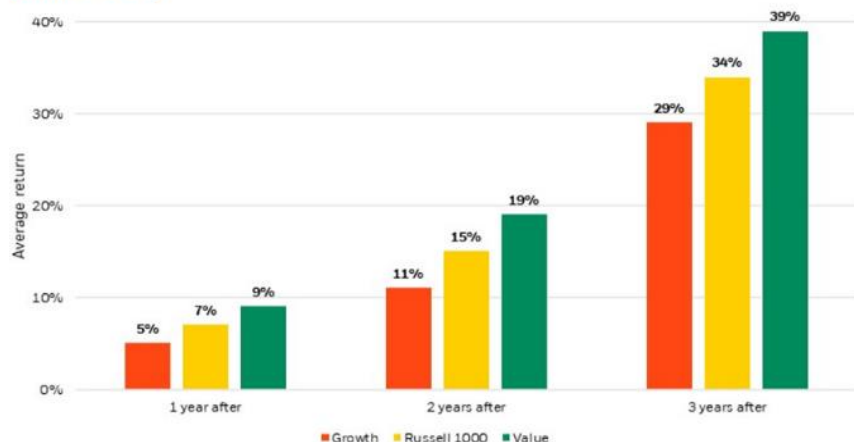
The bear market is expected to continue at least into the first part of 2023. Bear markets are a very normal and reoccurring part of the investment experience. While we can all try to foresee the future, no one can predict the length or severity of any recession. **Our goal as your financial professional is to not try to predict the future but provide you with a solid financial plan that is designed to best weather any market environment. 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
- The Russian-Ukraine war
- China's "re-opening" after their strict "zero-COVID" policy
- The continued slowdown in global growth.

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.

Average U.S. Stock Returns After Recessions (Since 1978)



Source: BlackRock Fundamental Equities, with data from Bloomberg and Russell indexes, November 2022. Data covers five NBER-defined recessions since 1978 (excluding the two-month 2020 recession). Growth and Value are based on their representative Russell 1000 indexes.

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.

Our goal as the steward of your wealth is to help you through challenging times like these. As a skilled professional we always attempt to help you create a well-crafted plan customized for your unique situation and goals that takes into consideration how you will react to the markets ups and downs, including your time horizon, tax implications, liquidity needs, risk tolerance, and your overall personal objectives.

We 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. As always, please feel free to contact us with any questions you may have. Remember that as a valued client, we are always accessible to you!

One of our goals is to offer our services to other people just like you!

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Please call our office at (208) 888-0936 and we would be happy to assist you!

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There is an inverse relationship between interest rate movements and bond prices. Generally, when interest rates rise, bond prices fall and when interest rates fall, bond prices generally rise. There is no guarantee that a diversified portfolio will enhance overall returns outperform a non-diversified portfolio. Diversification does not protect against market risk.

Sources: www.cnbc.com; www.usatoday.com; www.reuters.com; www.barrons.com; www.usinflationcalculator.com; www.forbes.com; www.blackrock.com; www.bankrate.com; www.goldmansachs.com; www.cnn.com; www.bigcharts.com. Contents provided by the Academy of Preferred Financial Advisors, 2023