MONTHLY MARKET UPDATE
January 2023

The fourth quarter of 2022 continued some of the major trends of the year: volatility, unpredictability, and the primacy of Federal Reserve action. Following a surprisingly robust rally in October and November, the S&P 500® Index dropped -5.8% in December to finish the quarter up 7.6% and the annual period down -18.1%. The year was marked by the sharpest increases in interest rates by the Fed in history as it fought to dampen demand and repress persistent inflation. With higher rates cascading through the economy while market pundits grasped for precedence, the stock market reeled, and the bond market suffered its worst year on record. The Bloomberg Aggregate Bond Index was down -13%.

Among the laggards in 2022 were some of the most prominent mega-cap technology and communication stocks. Led by these big companies, Communication Services was down -39.9% for the year, Consumer Discretionary was down -37.0%, and Technology slid -28.2%. Higher rates were punishing to the housing market as mortgage rates soared and the Real Estate Sector sank -26.2% over the year. The fourth quarter rally missed these four sectors, instead favoring the cyclical sectors of Energy, Industrials, Materials, and Financials, all of which outperformed the broader market for the quarter and year. The outlier was the Energy Sector which was up a stunning 65.4% for the year, and 22.7% in the final quarter. The major catalyst was oil prices which were elevated for most of the year, although a fourth quarter dip brought the level back to the $80 per barrel range, close to where it began the year.

Across the broader equity market, value stocks were outperformers for the quarter and the year compared to growth. In terms of market capitalization, midcap stocks proved more resilient than large cap and small cap stocks, with the S&P Midcap 400® advancing 10.8% in the fourth quarter to bring the 2022 return to -13.1%, while the small (Russell 2000) and large cap (S&P 500) indices declined in the range of eighteen to twenty percent. The damage among the largest stocks and the relative stability of midcaps can also be seen in the unusual annual performance advantage of the S&P 500 equal weighted index, which gives each company in the index an equal weighting rather than weighting by size as in the standard index. The equal weighted index in 2022 dropped -11.5%, outpacing the market-weighted index by more than six percent.

The major backdrops for stock and bond performance in 2022 were inflation and the concomitant Fed rate increases. By the end of the year, we began to see some movement downward in demand and a bit of softening of inflation, but nothing dramatic enough to give us confidence to contradict Chairman Powell's declaration in December. "We still have some ways to go," he said, "in order to attain a stance of monetary policy that is sufficiently restrictive to return inflation to two percent over time." The housing market is an early indicator of a general slowdown, and that has certainly been achieved. Auto sales are also beginning to slacken. Just to balance Powell's rather dire forecast for future tightening, he has also said that the Federal Reserve doesn't want to go so far that they trip a deep recession, forcing dramatic cuts. In other words, we enter 2023 with dual headwinds: high rates slated to go higher and uncertainty on their peak or duration. Even when the dust settles, we are unlikely to see an interest rate environment as accommodative as the one we've grown accustomed to since the 2008 financial crisis.

Additional clouds that hung over the market this past year remain. The war in Ukraine and its impact on energy prices and supply chains are likely to put Europe into recession. China's expanding GDP, the engine of global growth over the past decade, slowed as the country faced waves of shutdowns around its zero Covid policy. Towards the end of the year the government relented to widespread discontent over this policy and opened back up; however, with Covid infections spiking, China is one area that bears watching.

In addition to the impact of rates, technical indicators such as the inversion in yield between the 1-year and 10-year Treasury make the probability of a recession in the U.S. in 2023 relatively high. The combination of sticky inflation and higher interest rates may sound like a recipe for further stock losses in 2023. We expect further volatility in the near term but are hopeful for a relatively short and shallow slowdown, with markets stabilizing in the second half and looking toward growth in 2024. There are many high-quality companies now trading at attractive valuations. If volatility continues in 2023, it could create buying opportunities for portfolios with longer time horizons. Investor sentiment remains near all-time lows, one of the best contrarian indicators supporting the bottoming of a market. We also look at historical precedence: back-to-back losing years for the stock market are rare, only occurring three times in the past fifty years. Areas of the market and our economy, such as health care, remain in secular growth trends.

What might influence the Fed to shift policy? The announcements of layoffs at major firms, particularly the mega-cap stocks that have led the market in past years, seem a harbinger of softening labor demand, one of the prerequisites prior to a Fed pause or pivot. The impact of tighter money has not yet been fully realized but will hit consumers and businesses as they look to renew expiring loans or face the need for borrowed capital. The Fed's actions are a brake on the economy -- but it takes a while between hitting the pedal and seeing the impact.

After several years of underwhelming yields, fixed income has become a more attractive asset class where yields in Treasury and corporate bonds are at their highest levels since before 2008. We believe the travails of the bond market are largely behind us with a prospective return to more normative times when a fixed income allocation can make a steady contribution to total returns. Although we may continue to see volatility in both the equity and fixed income markets, history has taught investors that timing a bottom is impossible, and the spike in interest rates has made a balanced portfolio look attractive again. The market can chug along in either direction for some time on the fumes of sentiment and the impetus of expectations.

MONTHLY MARKET UPDATE

As of December 31, 2022

U.S. EQUITIES (%)

	Dec.	QTD	YTD	1 Year	3 Year	5 Year	10 Year
DJ Industrial Average	-4.1	16.0	-6.9	-6.9	7.3	8.4	12.3
S&P 500	-5.8	7.6	-18.1	-18.1	7.7	9.4	12.6
Russell 1000	-5.8	7.2	-19.1	-19.1	7.3	9.1	12.4
Russell 1000 Value	-4.0	12.4	-7.5	-7.5	6.0	6.7	10.3
Russell 1000 Growth	-7.7	2.2	-29.1	-29.1	7.8	11.0	14.1
Russell Midcap	-5.4	9.2	-17.3	-17.3	5.9	7.1	11.0
Russell 2000	-6.5	6.2	-20.4	-20.4	3.1	4.1	9.0

U.S. EQUITY CHARACTERISTICS - S&P 500

	December	2021
Price/Earnings Ratio	19.1	25.5
Weighted Avg. Market Cap ($B)	417.5	674.3
Dividend Yield (%)	1.7	1.2

U.S. EQUITY SECTORS - S&P 500 (%)

	Dec.	QTD	YTD	Weight
Communication Services	-7.8	-1.4	-39.9	7.3
Consumer Discretionary	-11.3	-10.2	-37.0	9.8
Consumer Staples	-2.8	12.7	-0.6	7.2
Energy	-2.9	22.8	65.7	5.2
Financials	-5.2	13.6	-10.5	11.7
Health Care	-1.9	12.8	-2.0	15.8
Industrials	-3.0	19.2	-5.5	8.7
Information Technology	-8.4	4.7	-28.2	25.7
Materials	-5.6	15.0	-12.3	2.7
Real Estate	-4.8	3.8	-26.1	2.7
Utilities	-0.5	8.6	1.6	3.2

INTERNATIONAL EQUITIES (%)

	Dec.	QTD	YTD	1 Year	3 Year	5 Year	10 Year
ACWI	-3.9	9.8	-18.4	-18.4	4.0	5.2	8.0
ACWI ex USA	-0.7	14.3	-16.0	-16.0	0.1	0.9	3.8
MSCI EAFE	0.1	17.3	-14.5	-14.5	0.9	1.5	4.7
Emerging Markets	-1.4	9.7	-20.1	-20.1	-2.7	-1.4	1.4
China	5.2	13.5	-21.9	-21.9	-7.5	-4.5	2.4
Japan	0.3	13.2	-16.6	-16.6	-1.0	0.2	5.6
Germany	0.0	24.6	-22.3	-22.3	-3.0	-3.0	2.7
United Kingdom	-0.4	17.0	-4.8	-4.8	0.3	1.0	3.1
India	-5.5	2.0	-8.0	-8.0	10.3	6.0	7.4

KEY ASSET PRICES

	December	2021
EUR/USD	1.07	1.13
USD/CAD	1.35	1.28
USD/JPY	131.81	115.17
GBP/USD	1.21	1.35
Bitcoin ($)	16,514.0	47,413.3
Gold ($/oz)	1,827.0	1,816.0
Crude Oil (WTI) ($/bbl)	80.4	77.0

FIXED INCOME (%)

	Dec.	QTD	YTD	1 Year	3 Year	5 Year	10 Year
Government Bond	-0.5	0.7	-12.3	-12.3	-2.6	-0.1	0.6
Municipal	0.3	4.1	-8.5	-8.5	-0.8	1.3	2.1
U.S. Aggregate Bond	-0.5	1.9	-13.0	-13.0	-2.7	0.0	1.1
Investment Grade Corporate	-0.4	3.4	-15.3	-15.3	-2.9	0.4	1.8
High Yield	-0.6	4.2	-11.2	-11.2	0.0	2.3	4.0

U.S. TREASURY YIELDS (%)

	December	2021
3-Month	4.4	0.1
6-Month	4.8	0.2
2-Year	4.4	0.7
5-Year	4.0	1.3
10-Year	3.9	1.5
30-Year	4.0	1.9

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The Dow Jones Industrial Average® (The Dow®), is a price-weighted measure of 30 U.S. blue-chip companies. The index covers all industries except transportation and utilities.

The S&P 500® Index is an unmanaged index of large companies and is widely regarded as a standard for measuring large-cap and mid-cap U.S. stock-market performance. Results assume the reinvestment of all capital gain and dividend distributions. An investment cannot be made directly into an index.

The S&P Midcap 400 is designed to measure the performance of 400 mid-sized companies, reflecting the distinctive risk and return characteristics of this market segment.

The Russell 1000® Index measures the performance of the 1,000 largest companies in the Russell 3000® Index, which represents approximately 89% of the total market capitalization of the Russell 3000 Index.

The Russell 1000® Growth Index is designed to track those securities within the broader Russell 1000 Index that FTSE Russell has determined exhibit growth characteristics.

The Russell 1000® Value Index is designed to track those securities within the broader Russell 1000 Index that FTSE Russell has determined exhibit value characteristics.

Russell 2000® Index measures the performance of the 2,000 smallest companies in the Russell 3000® Index, which represents approximately 11% of the total market capitalization of the Russell 3000® Index.

The Russell Midcap® Index measures the performance of the mid-cap segment of the U.S. equity universe. The Russell Midcap® Index is a subset of the Russell 1000® Index. It includes approximately 800 of the smallest securities based on a combination of their market cap and current index membership.

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International Equities Definitions
The MSCI ACWI ex USA Index captures large and mid cap representation across 22 of 23 Developed Markets countries (excluding the US) and 23 Emerging Markets countries. With 1,843 constituents, the index covers approximately 85% of the global equity opportunity set outside the US.

The MSCI EAFE (Europe, Australasia & Far East) Index is a free-float adjusted market capitalization index that is designed to measure developed market equity performance, excluding the U.S. and Canada.

Emerging Markets - MSCI Emerging Market Index – captures large and mid cap representation across 24 Emerging Markets (EM) countries. With 1,138 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

China - MSCI China Index - captures large and mid cap representation across China A shares, H shares, B shares, Red chips, P chips and foreign listings (e.g. ADRs).

Japan - MSCI Japan Index - is designed to measure the performance of the large and mid cap segments of the Japanese market.

Germany - MSCI Germany Index - is designed to measure the performance of the large and mid cap segments of the German market.

United Kingdom - MSCI United Kingdom Index - is designed to measure the performance of the large and mid cap segments of the UK market.

India - MSCI India Index - is designed to measure the performance of the large and mid cap segments of the Indian market.

Fixed Income Definitions
Government Bond - Bloomberg US Government Index - measures the performance of the U.S. Treasury and U.S. Agency Indices, including Treasuries and U.S. agency debentures. It is a component of the U.S. Government/Credit Index and the U.S. Aggregate Index.

Municipal - Bloomberg U.S. Municipal Index - covers the USD-denominated long-term tax exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds and prerefunded bonds.

U.S. Aggregate Bond - Bloomberg U.S. Aggregate Bond Index - is a broad-based flagship benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, mortgage backed securities, asset-backed securities and corporate securities, with maturities greater than one year.

Investment Grade Corporate - Bloomberg U.S. Credit Index - measures the investment grade, US dollar-denominated, fixed-rate, taxable corporate and government related bond markets. It is composed of the US Corporate Index and a non-corporate component that includes foreign agencies, sovereigns, supranationals and local authorities.

High Yield - Bloomberg U.S. Corporate High Yield Bond Index measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below. Bonds from issuers with an emerging markets country of risk, based on Bloomberg EM country definition, are excluded.

Definitions
Weighted Avg. Market Cap: measures the size of the companies in which the portfolio invests. Market capitalization is calculated by multiplying the number of a company's shares outstanding by its price per share.

Price-to-Earnings (P/E) Ratio: measures how expensive a stock is. It is calculated by the weighted average of a stock's current price divided by the company's earnings per share of stock in a portfolio.

Dividend Yield: the portfolio's weighted average of the underlying portfolio holdings and not the yield of the portfolio.