STRATEGIC CLIENT NEWSLETTER

FOURTH QUARTER 2022

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As of 12/30/2022

Market Performance
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Dow Jones Industrial Average

This Quarter	14.87%
Year-to-Date	-8.74%

S&P 500

This Quarter	6.36%
Year-to-Date	-19.64%

Nasdaq Composite

This Quarter	-1.81%
Year-to-Date	-33.47%

Indices are unmanaged and you cannot invest directly in an index

Fourth Quarter Gains Limit Volatile, Negative Markets in 2022

Positive market growth in the S&P 500 and Dow Jones Industrial Average (DJIA) for the fourth quarter of 2022 helped to curb losses across the market indices. The DJIA closed the year at 33,147.25 (-8.74%), and the S&P 500 Index closed at 3,839.50 (-19.64 %). ***We believe we will continue to see some negative pressure in the stock markets in the beginning of 2023, with more stable market recovery beginning mid-year.***

- Gross Domestic Product for the third quarter of 2022 increased at a rate of 3.2%, following negative growth rates in the first two quarters of the year, which is the technical definition of a recession (-1.6% in the first quarter; -.6% in the second quarter). *(Source: www.bea.gov)*
- The National unemployment rate remains at record low levels, with a rate of 3.5% (September 2022), 3.7% (October 2022 and 3.7% (November 2022). *(Source: www.bls.gov)*
- Nonfarm productivity began 2022 with a first quarter rate of -5.9%, with a decrease in the second quarter (-4.1%) and a third quarter rate of +.8%. *(Source:www.bls.gov)*
- The Consumer Price Index (CPI), which measures changes in the price level (inflation) of consumer goods and services, continues to show increasing rates: 0.4% in September 2022, 0.4% in October 2022 and .1% in November 2022. *(Source: www.bls.gov)*
- Personal Income increased in October 2022 (+.4%) and November 2022 (+.7%) *(Source: www.bea.gov)*
- Corporate profits from current production decreased in the third quarter of 2022 by .1%, following an increase of 4.6% in the second quarter of 2022. *(Source:* www.bea.gov*)*

2023 Outlook

The War in Ukraine, which broke out near the end of February 2022, put unforeseen pressure on the stock market, bond markets and energy markets. In our forecast for this past year, though we predicted a negative market year due to overvalued equity markets, the war in Ukraine compounded the poor performance. In addition to this negative pressure, the lack of liquidity in Russia's fixed income markets spilled over globally, causing poor performance in bonds, which are typically a safe haven during a negative stock market. We continue having concerns over increasing inflationary pressure and rising interest rates, and expect these pressures to be impactful in 2023 as we anticipate 2-3 rate increases by the Federal Reserve in 2023, before inflationary pressure begins to subside.

In our 2023 outlook, we are concerned in the following areas, which we will continue to watch throughout the year:

- Moderate increases in inflation, which should subside later in the year.
- Higher interest rate environment, leading to higher borrowing rates and money market rates.
- The increasing national debt as the U.S. government continues to borrow at higher rates and payments.

Looking ahead to 2023, we expect the stock markets to have continued volatility as inflation remains, with a more stable market beginning near the end of the second quarter. With more fairly valued equities in 2022, we expect market recovery in 2023. **Assessment:** <u>We expect a market recovery in 2023 as we feel stocks are currently fair-valued to slightly under-valued, and we believe we will enter a new business cycle by fourth quarter 2023.</u>

We feel that energy prices will remain high for much of 2023, as inflation remains and the global energy demand continues into much of the year. We believe there will continue to be minimal increases in crude prices as overall economic growth is slow to moderate, and alternative energy sources continue to be explored and expanded upon. **Assessment:** <u>We believe oil prices will be volatile in 2022 at $80-$100/barrel for WTI.</u>

We expect GDP to grow by 2.0%-3.7% by year end 2023, with moderate inflationary pressure, and expect the Federal Reserve to increase rates a total of 0.75%-1.25% in 2023 to help ease impacts of inflation.

<u>STOCKS</u>

We believe stocks are fair-valued to slightly under-valued right now, and we expect to see some recovery in the broad markets. We expect the broad markets to gain between 10-12% in 2023. In particular, we continue to favor financials and mid-large cap value domestic, industrial and manufacturing stocks. We are neutral on international and global stock portfolios, and continue favoring domestic infrastructure stocks. We will continue to focus on low risk (low beta) stock portfolios for added downside protection.

<u>CASH/MONEY FUNDS</u>

The Federal Reserve cut short-term rates in 2020 to near 0.0%. **Based on Federal Reserve meetings, we expect rates to increase in 2023 beyond the current Federal Funds Rate (4.25% - 4.50%)**, as inflationary and growth concerns continue to drive Federal Reserve policy. We believe money market rates will continue to climb in 2023 as rates increase.

BONDS

We favor corporate bonds going into 2023, and favor maintaining current fixed income allocations. With the Federal Reserve increasing rates in 2023, there's a potentially unfavorable impact to fixed income prices, and we expect to see returns in the overall bond market of 0-3%.

2023 Retirement Planning

The Secure Act 2.0, which was signed into law at the end of 2022, has some significant changes that may impact retirement planning for clients:

1. As of January 1, 2023, IRA Required Minimum Distributions won't begin until age 73. If clients have already started taking their RMDs, they are not impacted by this change. The law also has the age increasing to 75 in 2033.
2. In most cases, Non-Spousal, Inherited IRAs will need to be fully distributed within ten years, with no changes expected that would require taking mandatory distributions.
3. The penalty for failing to take an RMD would decrease to 25%, from 50%. If the correction is made in a timely manner, the potential penalty would decrease to 10%
4. After 15 years since account opening, 529 plan assets can be rolled into a Roth IRA in the beneficiary's name, subject to contribution limits and an aggregate lifetime limit of $35,000.

Retirement Plan Updates for 2023

	Contribution Limit	Additional Catch Up *(if over age 50)*
401(k), 403(b) and 457 Plans	$22,500	$7,500
Traditional IRA, Roth IRA	$6,500	$1,000
Simple IRA	$15,500	$3,500
SEP IRA	$66,000	-

Key Milestone Ages for Social Security Benefits:

60: Eligible for reduced Social Security payments; Remarriage after age 60 does not bar Social Security widower or surviving divorced spouse payments.

62: Eligible for reduced Social Security retirement or spousal payments.

65: Eligible for Medicare; Eligible for SSI aged payments.

65-67: Full retirement age, as determined by birth year, so eligible for unreduced Social Security benefits; maximum spousal and widower benefits; may draw spousal benefits without applying for own Social Security benefits; no earned income limitations.

70: Maximum Social Security benefits; voluntarily suspended payments automatically resume.

Tax Season – 2022 Tax Year

As with previous years, please feel free to contact our office to help expedite any tax inquiries you or your tax professional may have, and to assist with any additional information that may be required.

Typically, Charles Schwab and Co begins mailing 1099 Forms late January, with the majority sent out by the end of February. In some instances, clients may receive amended tax documents if additional income or distribution information was provided after the original mailing date.

CHB Investment Group Recommendations

Recommendations made by CHB Investment Group, LLC may not be suitable for all clients, and we suggest calling our office to review any recommendations that may meet clients' specific financial needs and risk tolerance.

- We have a bias towards value styles, as stocks have reached what we believe to be over valuation and also recommend a slight overweight in mid-large cap stocks, and lower risk equity portfolios.
- We have a neutral bias in international and global stocks.
- We continue to favor corporate debt, and expect an overweight to bonds later in 2023 as rates stabilize.

CHB Investment Group News

Please call our office with any account related questions or inquiries. We look forward to continuing to serve you in 2023. Happy New Year!

For clients who would like to receive non-confidential information regarding general market conditions and CHB Investment Group updates, please send your preferred e-mail address to chris.lindenthal@chbinvestmentgroup.com

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