2022 MARKET & ECONOMIC RECAP

JANUARY 6, 2023

Valuation Reset

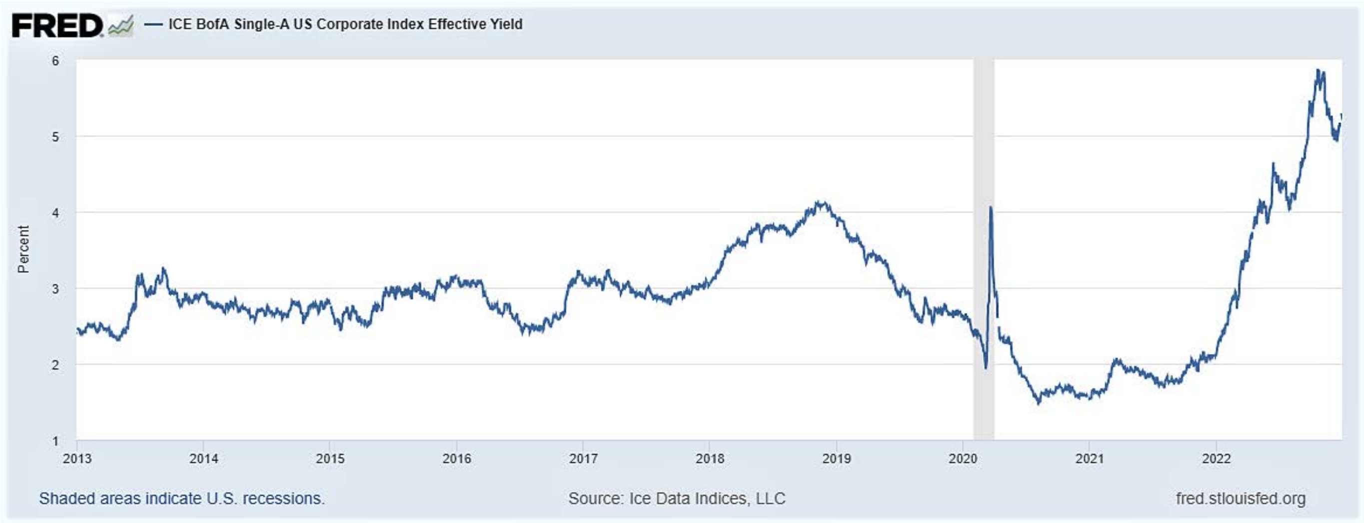
Looking back on 2022, the S&P 500 Index hit an all-time high on January 4 at 4,818.62[1]. The Russian invasion of Ukraine began in February, and the Federal Reserve kicked off the first of its seven rate increases in March. Energy prices skyrocketed due to supply disruptions and production constraints, inflation hit a 40-year high in June at +9.1%[2] year-over-year (y/y), and then we had the mid-term elections in November.

The S&P 500 Index finished at 3,839.50[1], down 19.44% for the year. We saw a valuation reset, given higher interest rates, which resulted in lower valuation multiples. This reset was one of the main drivers behind the decline in the S&P 500 Index as the Price to Earnings multiple (P/E) went from 21.4x[1] at the beginning of the year to 17.6x[1] by year's end. Meanwhile, earnings estimates for the S&P 500 Index started the year at $222.01[1] and were revised lower throughout the year to $218.46[1] by December 30 resulting in a 1.6% reduction.

2022 saw a continued rotation between value and growth as the higher valuation growth names came under pressure as interest rates rose. By the end of the year, Large Cap Growth was -29.89%[3] relative to Large Cap Value, which was - 9.69%[3], a difference of 20.2%.

Due to global supply chain issues, inflation was initially thought to be transitory but proved to be extremely persistent. Higher energy and housing costs added fuel to the already smoldering inflation fire. However, the two most recent Consumer Price Index (CPI) releases have pointed to a downward trend as we head into 2023. The prevailing thought is that some of the higher CPI prints last year are in our rearview mirror and that year-over-year inflation should continue to moderate.

As interest rates rose throughout the year, one area that became more attractive was Fixed Income. The effective yield of the ICE BofA Single A Corporate Index is now approaching 5.25%[4], which hasn't occurred in more than 10 years. While the traditional 60/40 portfolio was impacted by higher rates in 2022, the stage is set for a more favorable Fixed Income market assuming rates don't see a significant rise.



Source: St. Louis Fed

For 2023, there are two key things to keep in mind: 1) The consumer, and 2) The Federal Reserve. Given that personal consumption accounts for roughly 70%[2] of the Gross Domestic Product, the old saying, "as the consumer goes, so goes the economy," could well be in full effect. With the most recent Federal Reserve Summary of Economic Projections (SEP), it appears that we are closer to the end of the rate hiking cycle than the beginning. The most recent SEP indicates a terminal rate of 5.1%[5] vs. the current range of 4.25-4.5%[5] or roughly 75 bps of further rate increases. Will this be enough? Only time will tell.

Please reach out to your Financial Consultant with any questions you might have regarding your investments, and we wish you and your family a Happy New Year.

[1] Factset [2] Bureau of Labor Statistics bls.gov [3] iShares Russell 1000 Growth and Value ETF's used as proxies [4] FRED [5] Federal Reserve.gov

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