Market Summary: Fourth Quarter 2022

Sentiment shift. Easing inflationary pressures and growing expectations of a recession for 2023 promoted a major shift in the global markets during the quarter, causing a dramatic drop in interest rates and fueling a strong rally in Bonds and 'Value' oriented stock sectors (including Foreign). Meanwhile Commodities and 'Growth' stock sectors languished as the reality of slowing growth began to be digested. This quarters turnabout of stocks and bonds was despite the Fed raising short term rates by 1.25% to 4.25-4.50% level, as well as reiterating their commitment to raise rates further and for longer. The performance rotation between and across market sectors continues to be historic as seen in the variance by quarter and for the year. The chasm between the market's view and Fed's view of inflation and economic growth has never been wider, and continues to fuel uncertainty and volatility.

Index Returns:	QTD	12 Months		QTD	12 Months		QTD	12 Months
US Blend Equity	7.05%	-19.5%	U.S. Growth	-0.30%	-31.8%	U.S. Short Bond	1.21%	-5.49%
Foreign Developed	18.1%	-14.2%	U.S. Value	13.6%	-7.63%	Intermediate Corp Bond	1.82%	-14.8%
Emerging Equity	10.3%	-20.6%	Small Blend	6.21%	-20.5%	High Yield Bond	5.03%	-11.0%

Market Outlook: A Battle of the Wills. The Fed is committed to bringing down inflation, even at the cost of slowing growth and rising unemployment. Though some inflationary pressures have cooled dramatically (housing, energy, and some supply chain issues), big imbalances in the labor market continue to pressure wages higher. And, since the US economy is 67% service driven, inflation will likely remain elevated for some time causing interest rates to remain higher for longer. The implication of higher rates, wages, and inflation will directly impact corporate earnings, specifically margin compression. Earnings growth in a slowing economy will be challenging. Currently, the market consensus is for earnings to grow at +4.5% for 2023 and +11% in 2024. Valuations (P/E's) remain elevated at 17.4 despite higher interest rates. The last time interest rates were at these levels, the P/E was in a range of 11 to 15, or -35% to -11% lower than today. The combination of slowing earnings and high valuation will be a significant headwind for stocks in general in 2023. However, some areas of the stock market are not over priced, (Value sectors) and offer investing opportunities. Additionally, with short rates now above 4% (the first time since 2007) the bond portion of the portfolio should provide positive returns in the year ahead.