# 4th Quarter Newsletter

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## 4th Quarter 2022 Recap

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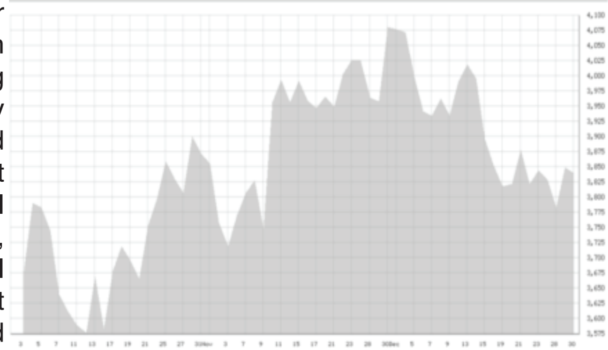
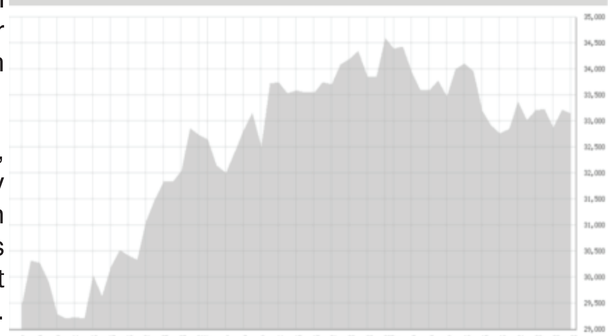
**S&P 500 Q4/2022 7.08%**



**DJIA Q4/2022 15.39%**



**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*

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% *(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 resiliance 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 of if, how long, and how deep of a recession the U.S. and global economy could see in 2023 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 rocky 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

In 2022, Americans saw seven federal interest rate increases, ending the historically low interest rates that were enjoyed since the "Great Recession" from 2007-2009. In their efforts to use interest rate increases to lower inflation, the Fed raised interest 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, for a target rate 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. Job growth remained strong in November, keeping the unemployment rate at 3.7%. At their December FOMC meeting, the Fed predicted a rise in the unemployment rate, looking at 4.6% by the end of 2023. Later in the month of December the unemployment rate actually moved to 3.5% *(Bureau of Labor statistics).*

Fed Chair Jerome Powell suggested that in 2023 we may not see as sharp of increases as this year, when rates were quickly increased to jump start the Fed's key weapon to fight inflation. It is likely that at the Fed's first meeting on February 1, 2023, they will continue to raise rates, but potentially by a smaller percentage point than we have seen in the past several rate changes. Regardless of how the Feds adjust their tactics, it is expected that they will continue to be in a tightening approach toward inflation until they see a weakening in the labor market.

"It's very premature in my view to think about or be talking about pausing our rate hikes," said Powell at the November press conference following the Federal Open Market Committee (FOMC) meeting. 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," he 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," Powell said *(reuters.com, 12/14/22).*

## KEY TAKEAWAYS

1. The Fed raised interest rates twice in the fourth quarter, ending the year at target rate range of 4.25 – 4.50%. This marked a 4.25% total rate increase in 2022, the fastest upward cycle in history.
2. The Fed is positioned to further increase federal interest rates in 2023.
3. Inflation showed signs of slowing down, with a rate of 7.1% for the 12-month period ending November.
4. Recession concerns are on the rise.
5. Treasury yields are providing favorable returns.
6. Volatility will remain in the economic environment as we enter 2023.
7. Staying the course and maintaining the consis tency of a well-devised, long-term focused plan has historically served investors well.
8. ***We are here for you to discuss any concerns you have.***

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 *(usinflationcalculator.com).*

This was the data investors had long been waiting for and they expressed their approval by sparking quick, but short-lived equity market relief rallies. This initial descent from the inflation summit can be encouraging, but it takes more than one data point to make a trend. We will monitor inflation numbers as the 2023 data becomes available.

The Fed is watching other key economic indicators in addition to unemployment rates, including personal consumption expenditures (PCE), and consumer price index (CPI). "The inflation data received so far in October and November show a welcome reduction in the pace of price increases, but it will take substantially more evidence to give confidence inflation is on a sustained downward path," Powell said at the December FOMC meeting *(reuters.com, 12/14/22).*

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. Due to the continued rise of interest rates, we continue to suggest that, if you haven't already done so, please take a look at these key areas of your financial situation:

- The cost of borrowing is up, therefore:
  - ✓ proactively pay off all non-essential interest-bearing debt.
  - ✓ maintain liquidity for short-term purchases.
- If you have a mortgage, review your rates with us. Mortgages rates have hit a two-decade high, reaching above 7%. While home prices are still robust, this sharp rate increase is bringing down home prices.
- If you have bonds in your portfolio, understand their duration.
- Review all income-producing investments.

**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.**

**Ten Year History of U.S. Inflation Rate**

***2012 - 2022***


## The Bond Market & Treasury Yields

Simply put, bonds had a terrible year as the bond market had one of its worst years in history. 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 *(cnn.com, 12/30/22).*

Bond prices and bond yields are inversely related. When prices go down, yields go up. 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%, 10-year notes yielded 3.88%, 20-year notes yielded 4.14%, and 30-year notes reached 3.97%. The 1-year treasury rate reached 4.73% on December 30 after a fourth quarter high of 4.80% on November 7 *(ycharts.com).*

Investing in bonds can help diversify your portfolio. Bonds can be a good 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. As we have already shared, 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. If you'd like to explore how bonds could fit into your retirement income strategy, please contact us so we can help you make the best decision for your portfolio.

**We will continue to monitor how the Fed's movements and rising interest rates are affecting bond yields.**

**Bond Yields *(January – December 2022)***


## 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 *(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. He continued, "If the economy continues to slow and quarterly earnings calls in January reveal a dour outlook for the year, corporate earnings estimates will be marked down and the market could have a renewed tumble" *(bankrate.com 12/28/22).*

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.

## 2022 Treasury Yield Comparisons

| January 4, 2022 | | | | December 29, 2022 | | | |
|---|---|---|---|---|---|---|---|
| 5-year | 10-year | 20-year | 30-year | 5-year | 10-year | 20-year | 30-year |
| 0.36% | 0.93% | 1.46% | 1.66% | 3.94% | 3.83% | 4.10% | 3.93% |

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 a reasonable unemployment rate in late 2023 *(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" *(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. How long this bear market will last is yet to be seen. While no one can predict its end, history shows that the average bear market since the modern S&P 500's inception in the 1920s lasted an average of 19 months *(cnb.com; 6/13/21).*

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

Although these areas are at the forefront, we must also look at other ongoing global concerns, including:

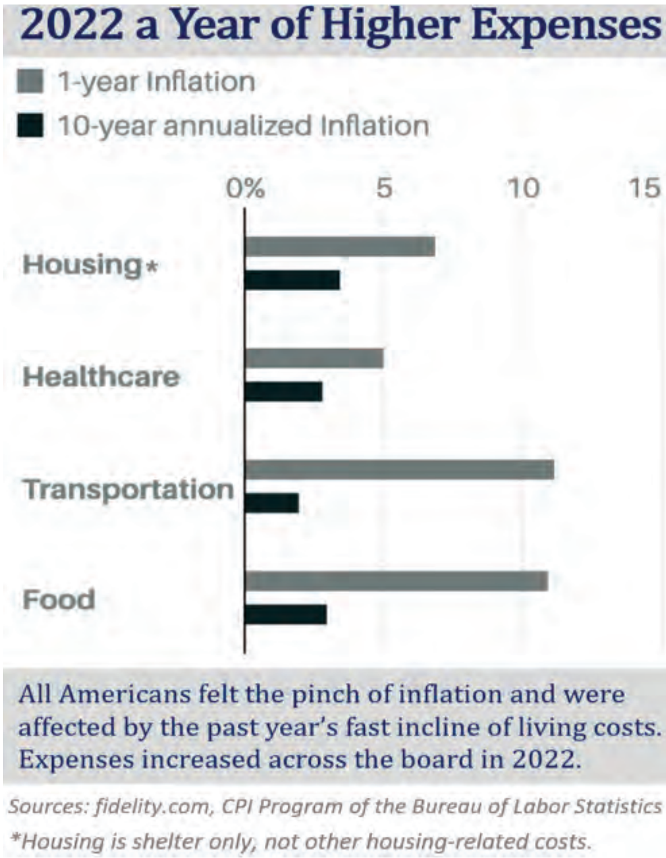
- The Russian-Ukraine war is still very active, with no end in sight.
- China's "re-opening" after their strict "zero- COVID" policy was lifted is off to a slow start.
- Slow global growth. Some analysts suggest that global growth will only be at 1.7% in 2023, down from the approximately 6% growth rate in 2021 and 3.2% growth rate in 2022 *(Barclays Q1 2023 Global Outlook).*

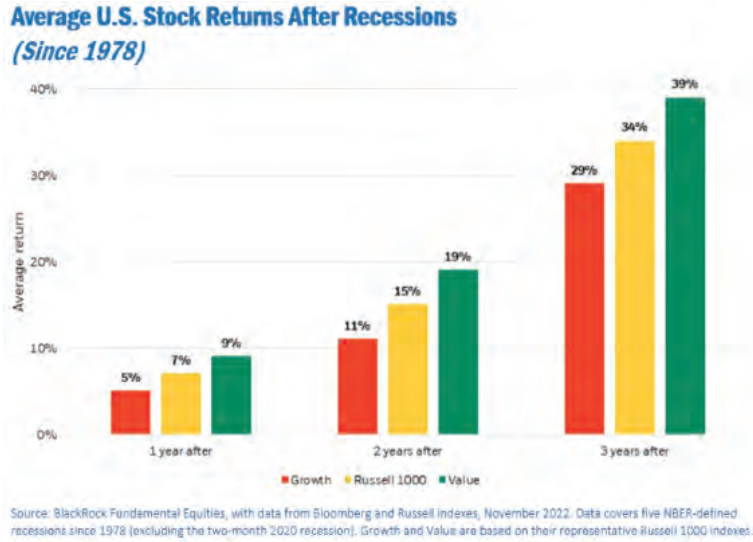
The Fed's goal is to achieve a "soft landing" but balancing the fine line of avoiding a recession yet slowing growth enough to put the brakes in inflation is a daunting battle it will continue to wage into 2023. What does this mean for investors? Continued uncertainty and volatility.

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. 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 always 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. There are often other factors to consider, including tax ramifications, increased risk, and time horizon changes when altering anything in your financial plan.

**Please remember that as a valued client, we are accessible to you!**




**These are challenging times for investors. Heading into this new year, we are grateful for your confidence and trust. We will continue to offer first class service to our clients, maintain a proactive approach to your financial goal, and stay apprised of any situations that may affect you. As always, please feel free to contact us with any concerns or questions you may have.**

**We pride ourselves in offering:**

- Individualized advice tailored to your specific needs and goals.
- Consistent and meaningful communication throughout the year.
- A schedule of regular client meetings.
- Continuing education for all our team members on issues that may affect you.
- Proactive planning to navigate the changing environment.

**Remember, a skilled financial professional can help make your financial journey easier. Our goal is to understand your needs and create an optimal plan to address them.**

# Upcoming Webinars

## Investments Webinar

### Thu, Feb 16 at 6pm

This webinar will be presented by Rohan Nakrani, MBA, our in-house Portfolio Manager, who manages and designs our investment solutions at FAN. Rohan will cover a more in-depth look at investments, including: investor psychology, business cycles, investment types, and asset allocation.

During this presentation, investments will be discussed, such as stock and bonds, which have various risks including loss of principal and may not be suitable for every investor.

## Property Inheritance Webinar

### Thu, Feb 23 at 6pm

Our strategic alliance, Nicole Newman of Newman Law Group, will provide important details on how to choose the right successor trustee. This webinar provides a great opportunity for you to plan for your loved ones. Nicole's specialty is guiding families on how to choose the right successor trustee, even in the most difficult circumstances. Family members and heirs welcome.

Nicole Y. Newman, Newman Law Group, and Financial Advisors Network, Inc. are separate entities. There is no obligation to use their services. The information to be discussed is not intended to be a substitute for specific legal advice. We suggest that you discuss your specific situation with a qualified legal advisor

## Social Security & Medicare Webinar

### Thu, Mar 2 at 6pm

Curious about the effects of Social Security on your financial situation? You and your friends are invited to this informative educational webinar. Learn about how Social Security may affect your individual position.

Join us to learn answers to some of the following topics: at what age you should start collecting Social Security, how much Social Security are you eligible for, how Medicare works, how Social security is taxed, and more.

For more information or if you would like to join any of these webinars, please contact us at macaela@fanwmg.com or (714) 597-6510.

# FAN TEAM UPDATE

# Winter 2022

The FAN Team has been busy working hard and having some fun too!

Here's what we've been up to lately...

Palm Springs for Thanksgiving

Rams Game!

Client Wedding in Temecula

Celebrating Amy's Birthday at Disney


Rod with Sal Sanfilippo's
New Book
"Through The Dog's Eyes"

Parents Weekend in
Boulder, CO

# Don't Forget!

## Come in for your Complimentary Financial Consultation.

We would like to offer you a complimentary consultation with one of our professionals
at no cost or obligation to you.

## Contact Us

(714) 597-6510 or info@fanwmg.com

We would be happy to schedule a complimentary appointment.

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