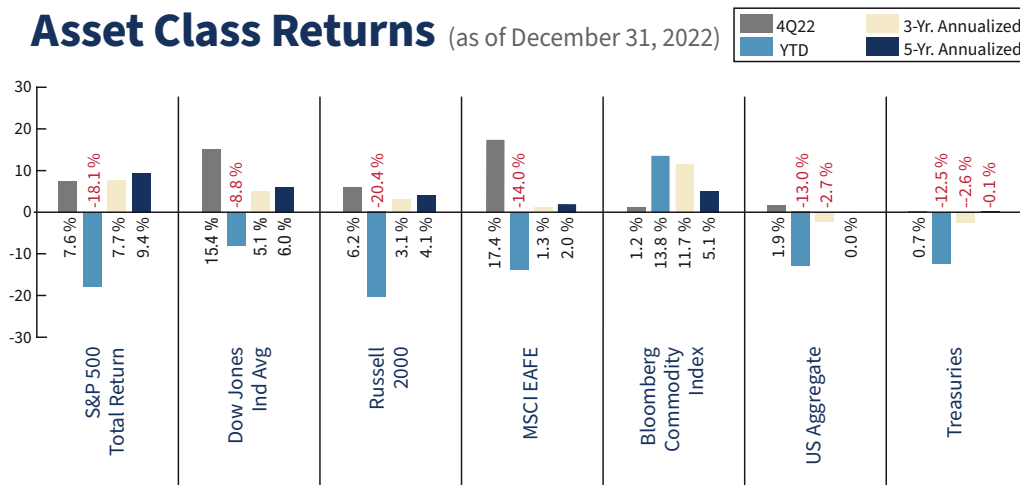


“Whether you think you can or you think you can’t, you’re right.”

– Henry Ford

## Asset Class Returns (as of December 31, 2022)



Materials prepared by Raymond James for use by its Financial Advisors

## Market & Economic Synopsis

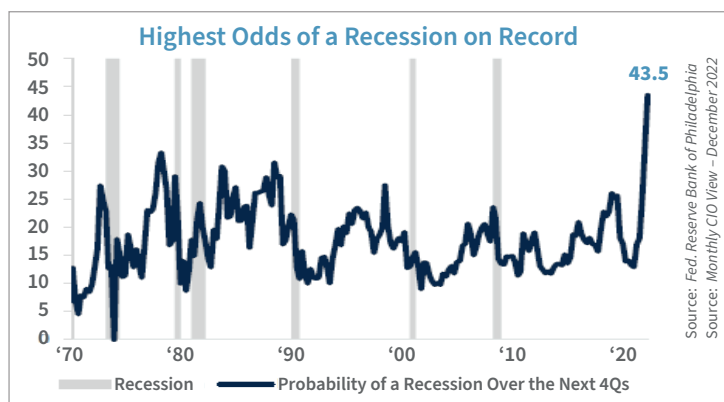
- The Federal Reserve (Fed) raised the fed funds rate by 50 bps to 4.25%–4.50% during its December policy meeting. Rates were near zero to start the year.
- Inflation continues to be stubbornly high with headline inflation at 7.8% YoY; but price pressures across a variety of goods appear to be weakening since the peak of 9.0% in June.
- Labor market remains persistently strong with unemployment historically low at 3.7%.
- Consumer spending remains resilient; but personal savings rates are declining and credit card balances are rising, creating concern.
- Three major yield curves (3-Mo, 10-Yr, & 30-Yr) are now inverted. An inverted-yield curve happens when shorter-term treasuries are paying more than longer-term treasuries.
- Oil prices have fallen to around \$76/barrel bringing the national average of gasoline to \$3.53/gallon. Pump those breaks though as analysts believe we are likely to see gasoline at \$4.00/gallon by summer.
- Midterm elections signal gridlock as the Republicans took control of the House of Representatives and Democrats maintained control of the Senate.
- Elon Musk, CEO of Tesla, buys Twitter in \$44 billion deal. He is no longer the world’s richest person.

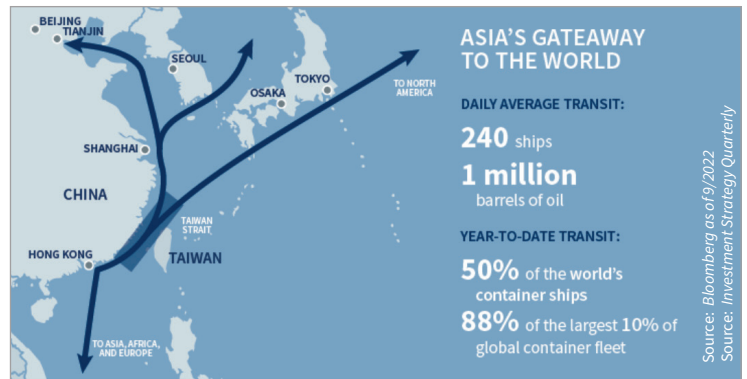
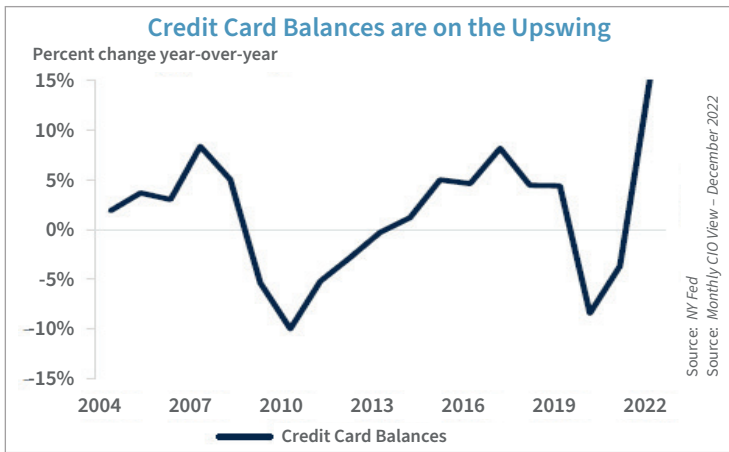
## Market Update

As we look back on the second half of 2022, interest rates, geopolitical tension, and recession fears remained dominant themes of this volatile bear market. Even holiday cheer could not bring much joy to the stock market as the year came to a close. Santa must have been run over by the reindeer as the S&P 500 finished the year down more than 18.0%. However, some point to the so-called “Santa Claus Rally” as an indicator for a healthier start to the new year in the stock market. Defined by Yale Hirsch in the Stock Trader’s Almanac, the “Santa Claus Rally” occurs when the S&P 500 is higher during the last five trading days of the year and the first two of the new year. Our team is not convinced by this modest rally and phenomenon, as we see tough sledding to start 2023. An aggressive Federal Reserve, yield-curve inversion, and diminishing consumer savings signal to us that a mild recession is likely in 2023.

## More Rate Hikes Ahead – Higher for Longer

The Federal Reserve raised short-term interest rates seven times in 2022 to fight inflation, spooking the equity and bond markets throughout the year. At times, investors hoped the head of the Federal Reserve, Jerome Powell, would have a change of heart, like Dr. Seuss’ the Grinch, and pause interest rate increases to let the markets digest this historically aggressive hiking cycle. However, as the inflation numbers remained hot around 8.0% and the labor market tight with salary growth, the Federal Reserve remained persistent in raising rates through the end of the year. If high inflation was a backyard bonfire, Powell has been transparent on how he will tame it. He is not pouring cups of water, rather he is dumping buckets to extinguish and ensure no flare-ups. An interest-rate hiking cycle this aggressive has not been seen since the early 1980s. The fear among investors is that Powell and the Fed are going to “overdo it” and throw too much water on the fire in their attempt to cool the economy, thereby sending the U.S. into a recession. However, there have been signs of inflation pressures declining in certain sectors, and we hope that trend continues throughout 2023. We remain reasonably optimistic long-term, but have a healthy degree of paranoia for the short-term.





### Globalization and the Call for Reshoring

Russia's war in Ukraine remains a headwind for the global economy as it enters its second year. Russia continues to weaponize its energy exports to Europe hoping to weaken support for Ukraine, especially military support. To the surprise of many, the European Union has fared much better than expected with current winter gas storage at 95% of capacity. However, energy prices in Europe remain volatile and the highest in the world. As a result, we favor U.S. stocks over international.

One of the more pressing concerns our team has discussed going into 2023 is the potential for a China-Taiwan conflict. Taiwan, which is about the size of Maryland, produces about two-thirds of the world's microchips and over 90% of integrated circuits. In other words, the electronics we use every day most likely have some component manufactured in Taiwan. The Taiwan Strait is one of the most important waterways for global trade. Just as St. Louis is thought of as the gateway to the West, the Taiwan Strait can be considered the trade gateway to Asia. A military conflict of any scale between China and Taiwan would have economic repercussions likely more detrimental than the Covid pandemic and Russia's war in Ukraine. Both countries are aware of the consequences of military conflict between them and therefore, we do not see it as a high probability. However, the world witnessed how fast things unfolded in eastern Europe a year ago, so investors should always understand risk and possible outcomes. Although globalization has created growth and wealth for many large American companies, recent international events described above have demonstrated the supply chain vulnerabilities associated with outsourcing. Nations and companies have begun to prioritize security over cost and efficiency. Here in the U.S., the mantra "Made in America" has more traction now than in recent decades.

### Around the Office

#### SECURE Act 2.0\*

The SECURE Act 2.0 was recently passed into law. The new legislation made significant changes to the U.S. retirement system with the goal of boosting participation and personal retirement savings. Listed below are a few key provisions.

- Higher RMD age: The RMD age is raised to 73 in 2023 and 75 starting 2033.
- Expanded emergency expense distribution allowances: Emergency distributions of up to \$1,000 are permitted for unforeseeable or immediate financial needs relating to personal or family emergency expenses once per year, to be paid back within three years (effective 2024).
- Higher catch-up contribution allowances: For those ages 60–63, the catch-up contribution limit is raised to the greater of \$10,000 or 50% higher than the regular catch-up amount. The higher allowance is effective starting 2025.
- Emergency withdrawals for disaster relief: Withdrawals of up to \$22,000 from employer retirement accounts or IRAs are permitted for individuals affected by a federally-declared disaster. These emergency-related withdrawals are permitted for disasters occurring on or after January 26, 2021.
- Expanded administrative cost tax credit for new businesses: A 50% tax credit for administrative costs incurred by new businesses is raised to 100% for companies with 50 or less employees effective 2023.

#### 2023 Contribution Updated Limits for 401(k)\* and IRA\*

- The 401(k) plan maximum annual deferral limit increased to \$22,500.
- The 401(k) plan deferral catch-up contribution limits if age 50 or older increased to \$7,500.
- The Traditional & Roth IRA maximum annual dollar contribution increased to \$6,500.
- The IRA Catch-Up Contribution Limits if age 50 or older remains \$1,000.

*\*You should discuss any tax or legal matters with the appropriate professional. The information has been obtained from sources considered to be reliable, but we do not guarantee that the foregoing material is accurate or complete. Any information is not a complete summary or statement of all available data necessary for making an investment decision and does not constitute a recommendation.*

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The DJIA index covers 30 major NYSE industrial companies. The NASDAQ represents 4500 stocks traded over the counter. The S&P 500 is a broad-based measurement of performance of 500 widely-held common stocks. The Barclays Aggregate Bond Index is a diversified index measuring approximately 6,000 investment grade, fixed-rate taxable securities. The Bloomberg Commodity Index is a diversified benchmark for the commodity futures market. The MSCI EAFE index is designed to measure the equity market performance of developed markets excluding the U.S. & Canada. The Barclays Municipal Bond Index is a measure of the long-term tax-exempt bond market with securities of investment grade. The Citigroup Broad Investment Grade Bond Index is market capitalization weighted and designed to track the performance of U.S. dollar-denominated bonds issued in the U.S. investment-grade bond market.

International investing involves additional risks such as currency fluctuations, differing financial and accounting standards, and possible political and economic instability. Also, investing in emerging markets can be riskier than investing in well-established foreign markets. There is no assurance any of the trends mentioned will continue in the future. Investing involves risk and investors may incur a profit or a loss, including the loss of all principal. Investing in the energy sector involves special risks, including the potential adverse effects of state and federal regulation and may not be suitable for all investors.

U.S. government bonds and treasury bills are guaranteed by the U.S. government and, if held to maturity, offer a fixed rate of return and guaranteed principal value. There is an inverse relationship between interest rate movements and bond prices. Generally, when interest rates rise, bond prices fall and when interest rates fall, bond prices generally rise. Commodities may be subject to greater volatility than investments in traditional securities. Investments in commodities may be affected by overall market movements, changes in interest rates, and other factors such as weather, disease, embargos, and international economic and political developments. Diversification and asset allocation do not ensure a profit or protect against a loss. Dividends are not guaranteed and must be authorized by the company's board of directors. Investment Advisory Services are offered through Raymond James Financial Services Advisors, Inc.

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Bitcoin issuers are not registered with the SEC, and the bitcoin marketplace is currently unregulated. Bitcoin and other cryptocurrencies are a very speculative investment and involves a high degree of risk.