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January 2023 Outlook / 2022 Year-end Review

Unfortunately, it was the Latter

In August, we questioned whether the late summer rebound in the equity markets was the start of a new bull market or merely a "dead cat bounce." From August 15 through year-end, the S&P 500 dropped 10.6% to a year end decline of approximately 19%. Yeah...that qualifies for the latter. Inflation, supply chain disruptions, war in Ukraine, new tax and spending policies, and slowing growth in corporate profits all contributed to a poor year in the equity and bond markets. In fact, it was the worst year for US bonds since 1926.

Unfortunately, there isn't much improvement to be excited about in the near term. Most (around 2/3) of the economic prognosticators at the largest investment banks in the country are now forecasting a recession in early 2023 (Source: Wall Street Journal 1/3/23). Corporate profit estimates continue to be downgraded regularly and new spending policies are directly combating the Federal Reserve's efforts to tame inflation.

The number of economic statistics that we could deliver is almost limitless, but home sales and building permits recently caught our attention. According to TradingEconomics.com, existing home sales have dropped over 20% and building permits have dropped almost 30% from one year ago. The US employment market has remained very strong through the difficulties of 2022, partially due to the large number of people that have dropped out of the labor force. Government stimulus and low unemployment rates create new consumer spending. Inflation is also exacerbated when companies have to pay above-market salaries due to a shortage in workers. However, many jobs in the US revolve around residential construction. Permits give us an idea of what the future holds in terms of construction projects. Our concern is that these jobs will start to drop off significantly once current projects are completed and there are few new projects to begin. Given that the goal of the Federal Reserve right now is to slow down the economy, this phenomenon is likely to be occurring in other industries, as well. It doesn't feel right to say job loss is a good thing, but in terms of inflation, bad news is good news.

Said another way: increased unemployment *-leads to-* difficulty finding a job *-leads to-* lower wages and less consumer spending *-leads to-* lower inflation. Unfortunately, that scenario makes it difficult for the equity markets to improve in the near term. HOWEVER (here comes the spice!!), lower inflation is critical to the long-term health of the economy and markets. Furthermore, even though there may be an economic recession coming, the stock market will almost always move ahead of the economic news. The S&P 500 typically hits the cyclical bottom around 3-6 months prior to the economic bottom. That brings us all the way back to the old adage of long-term investing... because no one knows when that bottom will occur!!! There will be a time when inflation is under control and earnings begin to grow again. That has historically been a good time to be invested in stocks.

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Product Spotlight

* **Fixed Annuities** - While rising rates have been a drag on areas of the market, we have seen some of the highest rates in years for fixed annuity products. Current five-year rates are as high as 5.2% with some carriers.

* **Asset Based Long Term Care**- Seven out of ten people who are age 65+ will need long-term care. * Asset based long-term care is a strategy that offers growth potential along with the ability to maximize your long-term care dollars. Traditional long-term care involves the paying of premiums and when not used, funds are lost, and coverage is quite expensive. Asset based coverage allows for funds to be passed along to a beneficiary if not used resulting in greater control. **"If you don't use it, you don't lose it."** We are happy to discuss long-term care as part of your financial plan.
*(2014 Medicare & You, National Medicare Handbook, Centers for Medicare & Medicaid Services, September 2013)

Points of Interest

* **Inflation** - Over the decade from 7/01/2011 to 6/30/2021, US export prices, including all commodities and agricultural products, rose just +4.6% (*in total, not per year*). Over the 1-year from 7/01/2021 to 6/30/2022, US export prices rose +18.2% (Source: Bureau of Labor Statistics).

* **What is a Bear Market and How Long Do They Last** - A Stock index officially reaches bear territory when the closing price drops at least 20% from its most recent high. The average length of a bear market is 289 days or about 9.6 months. That is significantly shorter than the average length of a bull market, which is 991 days or 2.7 Years (Source: HartfordFunds.com).

* **Correction Frequency** - A correction is defined as a stock market decline greater than 10% but less than 20%. In a lookback to 1946, this has occurred approximately thirty times and usually occurs every 2.5 years (Source: BTN Research).

* **Recession** - What is the actual definition? The NEBR (National Bureau of Economic Research) is responsible for business cycle dating and defines a recession "as a significant decline in economic activity spread across the economy, lasting more than a few months, normally visible in real GDP, real income, employment, industrial production and wholesale-retail sales." More commonly a recession is defined as at least two consecutive quarters of declining GDP after a period of growth.

* **Caregiving Costs** - In 2021, family caregivers in the U.S. provided a total of approximately $470 billion in unpaid care. More than three in four family caregivers incurred out of pocket costs as a result of caregiving. On average, family caregivers spent 26% of their income on caregiving (Source: AARP).

YTD Change as of 12/31/22

S&P 500	-19.4% YTD 12/31/22 (Raymond James Market Summary)
NASDAQ	-33.10% YTD 12/31/22 (Raymond James Market Summary)
DJIA	-8.78% YTD 12/31/22 (Raymond James Market Summary)
Russell 2000	-21.56% YTD 12/31/22 (Raymond James Market Summary)
Global Dow	-10.51% YTD 12/31/22 (Raymond James Market Summary)
6 month Brokered CD Rate	4.35% as of 01/04/23 (Raymond James Trading Platform)
10-Year Treasuries	3.87% +236 bps YTD as of 12/31/22 (Raymond James Market Summary) 1.51% as of 12/31/21 (Raymond James Market Summary)

The S&P 500 is a market-cap weighted index composed of the common stocks of 500 leading companies in leading industries of the U.S. economy. The Global Dow is an equally weighted stock index. It is composed of the stocks of 150 top companies from around the world as selected by Dow Jones editors and based on the companies' long history of success and popularity among investors. The Dow Jones Industrial Average (DJIA), commonly known as "The Dow", is an index representing 30 stocks of companies maintained and reviewed by the editors of the Wall Street Journal. The NASDAQ Composite Index is an unmanaged index of securities traded on the NASDAQ system. The Russell 2000 index is an index measuring the performance of approximately 2,000 smallest-cap American companies in the Russell 3000 Index, which is made up of 3,000 of the largest U.S. stocks. It is a market-cap weighted index. CDs are insured by the FDIC and offer a fixed rate of return, whereas the return and principal value of investment securities fluctuate with changes in market conditions. Diversification and asset allocation do not ensure a profit or protect against a loss. Guarantees are based on the claims paying ability of the issuing company. Raymond James Financial Services, Inc. does not provide advice on tax, legal or mortgage issues. These matters should be discussed with the appropriate professional.

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A fixed annuity is a long-term, tax-deferred insurance contract designed for retirement. It allows you to create a fixed stream of income through a process called annuitization and also provides a fixed rate of return based on the terms of the contract. Fixed annuities have limitations. If you decide to take your money out early, you may face fees called surrender charges. Plus, if you're not yet 59½, you may also have to pay an additional 10% tax penalty on top of ordinary income taxes. You should also know that a fixed annuity contains guarantees and protections that are subject to the issuing insurance company's ability to pay for them.

Long Term Care Insurance or Asset Based Long Term Care Insurance Products may not be suitable for all investors. Surrender charges may apply for early withdrawals and, if made prior to age 59 ½, may be subject to a 10% federal tax penalty in addition to any gains being taxed as ordinary income. Please consult with a licensed financial professional when considering your insurance options.