

January 6, 2023

Good Morning,

2022 is in the books, and for investors it was a lousy year. Stocks were clobbered with the S&P 500 falling nearly 20%, and bonds had their worst year on record due to sharply rising interest rates. Balanced investment portfolios were battered from all directions. What should we expect as we look ahead to 2023? While the headlines blast bad news, the fundamentals aren't really that bad. The Federal Reserve remains the main character in this unfolding drama as they continue their fight against inflation.

Stocks are likely to remain volatile until inflation has clearly moderated, and that will take a couple more months of data to be determined. This morning's job data showed that wage inflation declined in December and, at today's market opening, stocks like the news. (We'll see how the rally holds up by the end of the day.) We are more encouraged by the bond market's prospects to start 2023. Interest rates appear to have peaked and bond prices have rallied nicely off the lows of early October. We will not see a repeat of 2022 when interest rates tripled, and we anticipate bonds will behave this year and provide the income and stability they are historically known for in portfolio allocations.

While 2022 was a bad year for investors, it's important to remember that history shows that stocks go up 80% of the time in the year following a downturn. Although that's no guarantee for 2023, we do like the odds. Regardless, we expect bonds to contribute to portfolio returns this year rather than be a drag on performance. While stocks will bounce around and headlines will tout the negatives, we remain focused on the long term and eventual recovery in financial assets.

Go Bills and #3!

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http://www.commonwealth.com/RepSiteContent/weekly_comm/commentary_redirect.htm

As always, if you would like to discuss this or anything regarding current market conditions or your portfolio, feel free to contact me at any time.

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