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Market Update
(all values as of 12.30.2022)

Stock Indices:

Dow Jones	33,147
S&P 500	3,839
Nasdaq	10,466

Bond Sector Yields:

2 Yr Treasury	4.41%
10 Yr Treasury	3.88%
10 Yr Municipal	2.59%
High Yield	8.87%

YTD Market Returns:

Dow Jones	-8.78%
S&P 500	-19.44%
Nasdaq	-33.10%
MSCI-EAFE	-16.79%
MSCI-Europe	-17.28%
MSCI-Pacific	-15.59%
MSCI-Emg Mkt	-22.37%
US Agg Bond	-13.01%
US Corp Bond	-15.76%
US Gov't Bond	-13.58%

Commodity Prices:

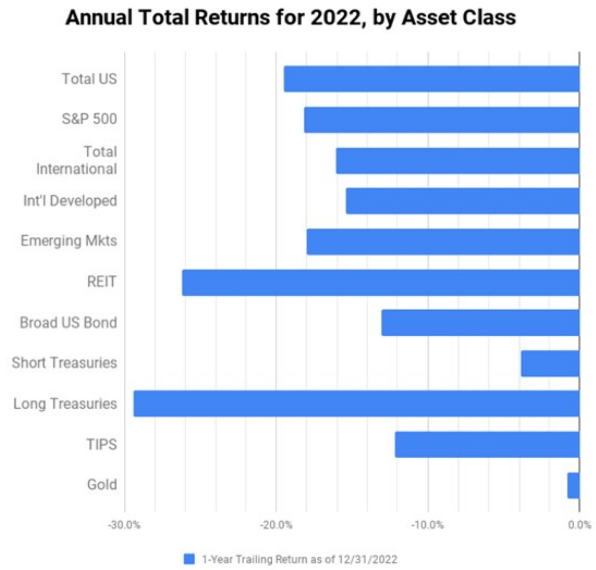
Gold	1,830
Silver	24.18
Oil (WTI)	80.48

Currencies:

Dollar / Euro	1.06
Dollar / Pound	1.20
Yen / Dollar	133.43
Canadian /Dollar	0.73

Macro Overview

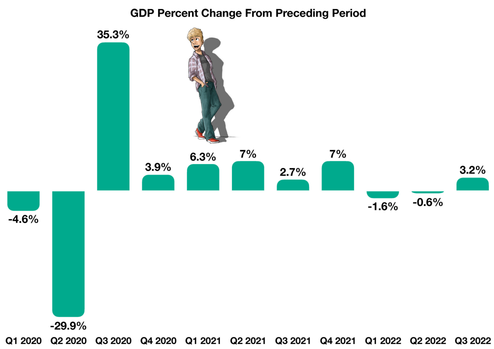
The biggest development in 2022 was the unforeseen rise in inflation and the Federal Reserve's seven interest rate hikes. Since the financial markets weren't expecting the quantity nor aggregate size of the seven rate hikes, the impact to equities and bonds created the worst investment year on record. There were very few safe places to invest. The SP500 was down 19.4% and the Barclay Aggregate Bond index was down 13%. The chart on the right illustrates the returns for all major asset classes in 2022. All of them were down more than 10% except for gold and short-term treasuries.



The Russian invasion of Ukraine caused significant disruption in the crude oil, natural gas, and grain markets. This event added to the rise of inflation. Inflation hindered both consumers and businesses in 2022, as rising prices for food and fuel shifted spending away from non-essential items.

Optimistically, the labor market remained resilient as unemployment stood below 4% at the end of 2022, still at historically low levels. Over 11 million positions were open heading into 2023, solidifying a buffer for millions of workers searching for employment. The strong labor market is causing wage pressure as companies need to pay higher wages to retain and attract workers. Higher wages are good except they lead to higher inflation.

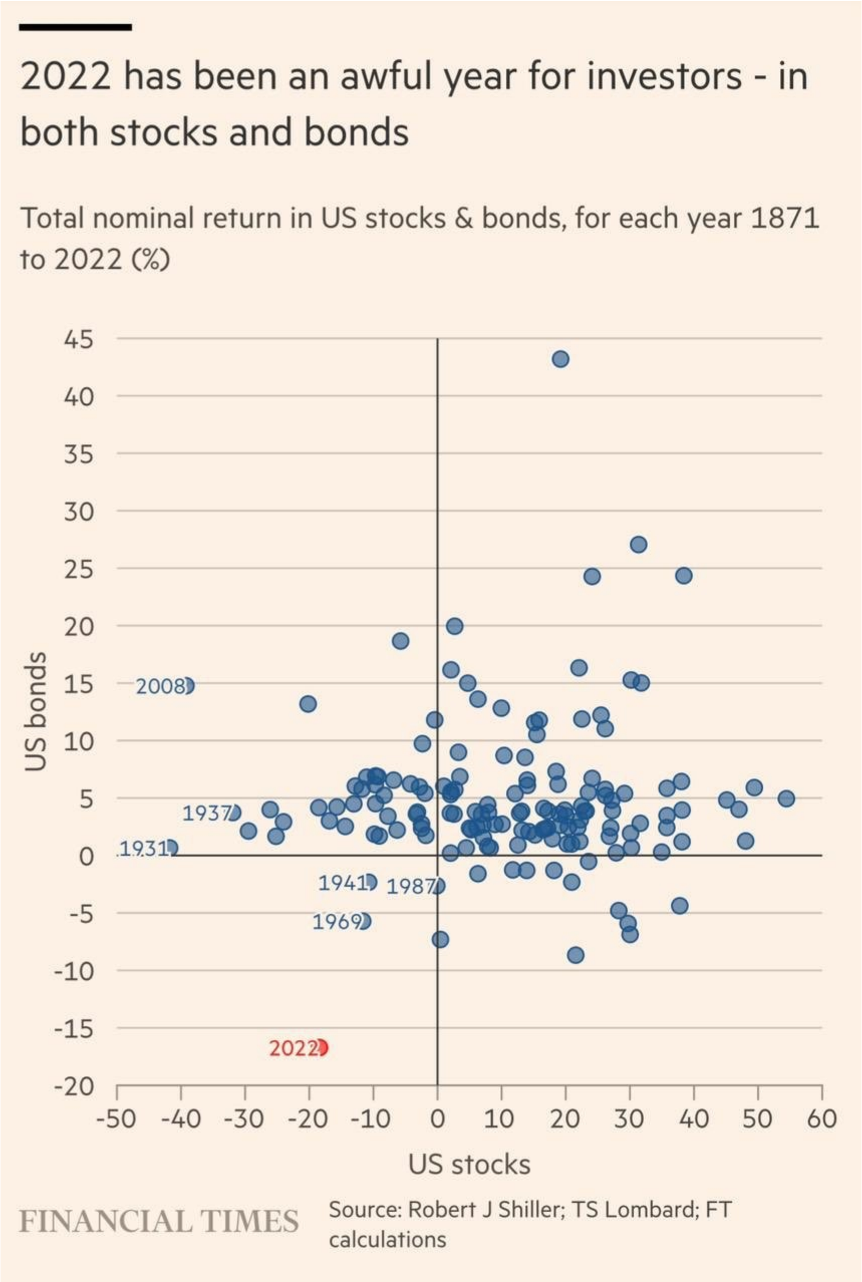
Congress passed the SECURE Act 2.0 in late December, carving the path for revised retirement provisions intended to help Americans save more intelligently for retirement. Among the changes is an increased RMD age of 73 for IRAs, and the ability to convert 529 college savings funds into Roth IRAs.



Economic expansion, as measured by Gross Domestic Product (GDP), staged a mild recovery in the third quarter of 2022, up from two consecutive quarters of negative GDP growth. Some analysts believe the bounce may be short-lived, as ongoing challenges are expected in 2023. A lingering recessionary environment is still a concern for the markets and consumers, instilling a more cautious approach to investing and spending. (Sources: BEA, BLS, U.S. Center for Disease Control and Prevention, U.S. Congress, Fed. Reserve)

Rate Increases Challenged Equities in 2022 – Equity Markets

2022 was one of the worst investment years for stocks and bonds in history. Stocks except for commodity related equities, primarily energy, were down across the board. Unfortunately, the "bond buffer", where bonds typically rise when stocks decline, didn't work. Bond returns had their worst year in history. The widely used 60% equity/40% bond portfolio allocation had its worst year in history, down more than -16.8% in 2022 as depicted by the historical plot of returns for this allocation.



Inflationary pressures and higher labor costs weighed on stocks, with only two sectors of the S&P 500, energy and utilities, posting gains for the year. The consumer discretionary, real estate, communications, and technology sectors underperformed the most for the year. Corporate earnings forecasts remain a focal point as companies increasingly struggle with tighter margins and a slowing economic environment. Optimistically, the challenges of the post-pandemic supply constraints have eased significantly.

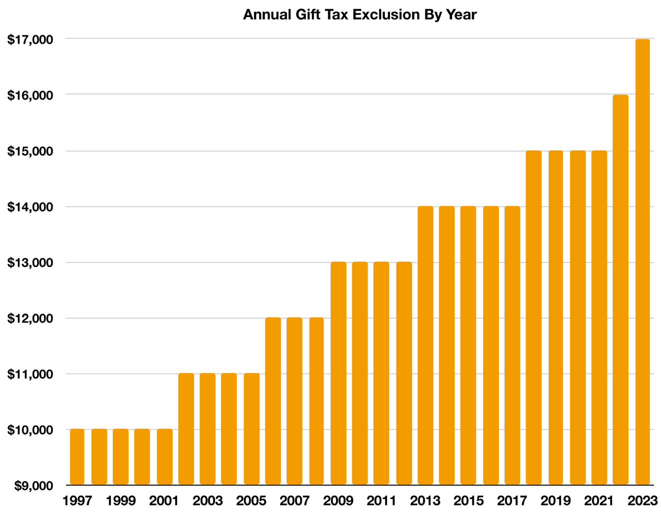
(Sources: S&P, Bloomberg, New York Stock Exchange)

Short Term Rates Remain Higher Than Long Term Rates – Fixed Income

40-year highs in inflation and Federal Reserve rate hikes played havoc on bonds throughout 2022, sending short and long terms rates to levels not seen in years. Short-term rates remained higher than long-term rates at the end of 2022, indicating a continued inverted yield curve. The 10-year Treasury note yield started 2022 at 1.52%, peaked at 4.25% on October 24th, and closed the year at 3.88%. The three-month Treasury bill rate, thanks to the Fed's continuous increase of short-term interest rates to alleviate inflationary pressures, started the year at 0.06% and closed the year at 4.42%.

(Sources: Federal Reserve, U.S. Department of the Treasury)

Tax Changes For 2023 – Tax Planning

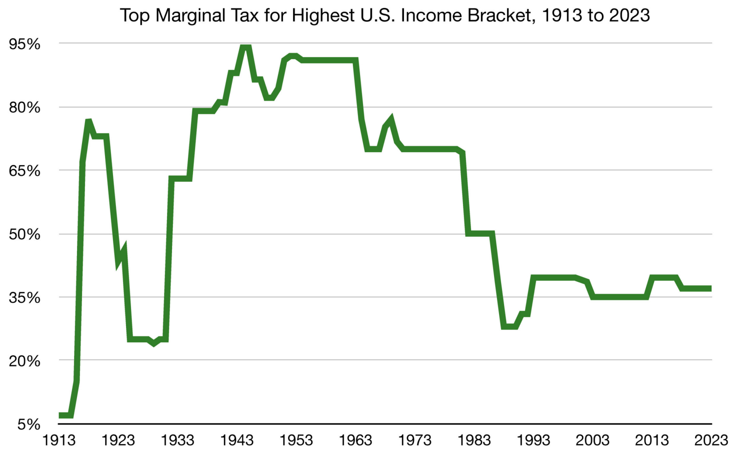


In 2022, inflation eclipsed 9% and reached a 40-year high as food and gasoline prices spiked. Many consumers reported consistently feeling that their paychecks did not go as far as they used to, to which the Internal Revenue Service (IRS) has responded by implementing key changes for the 2023 tax year.

The Internal Revenue Service (IRS) controls the adjustments of tax brackets and standard deductions, and annually makes tax code adjustments based on the cost-of-living factors, congressional demands, and inflation. The adjustment for 2023, due to 40-year highs in inflation was abnormally high.

For marginal income taxes, all federal income tax rates remain the same but the thresholds for each tax bracket for the marginal tax rate will go up 7%. For example, the top marginal tax rate of 37% previously applied for individual income above $539,900, yet in 2023 will apply to income above $578,125. Individuals making under $578,125 in 2023 will now not need to pay the top marginal tax rate, despite previously needing to in 2022. These rises in thresholds apply to all other income tax brackets, with all brackets rising by 7%. The reasoning behind this is to reduce the effects of high inflation and to save all tax-paying citizens money to some degree.

Similarly, the standard deductions have increased 7% to $27,700 for married couples in 2023, up $1,800 from 2022 and $13,850 for individuals. The annual gift tax exclusion is up $1,000 to $17,000, with 2023 being the first year the exclusion will rise only one year after it was previously increased since the exclusions inception in 1997. Itemized deductions continue to have no limitation since 2018, and the estate tax exclusion amount for 2023 will be $12,920,000, nearly $900,000 greater than in 2022.



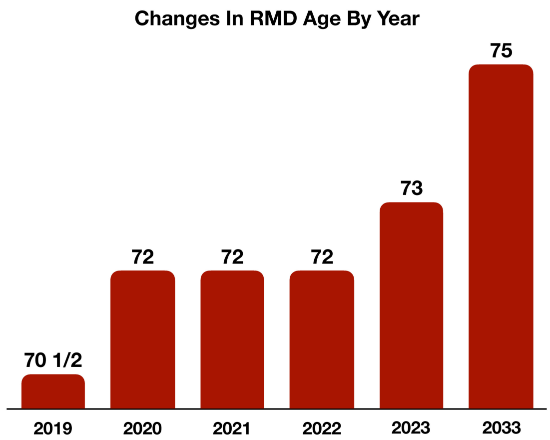
Current taxes are on the lower end compared to historical averages. The top income tax rate, currently at 37%, is 20% lower than the average top income tax since its introduction in 1913. The top income bracket tax rate reached as high as 94% in the 1940s and its 100-year average is about 57%.

Sources: Internal Revenue Service, Wall Street Journal, Tax Policy Center, U.S. Department of the Treasury, Federal Reserve Bank of St. Louis

Highlights From the SECURE Act 2.0 – Retirement Planning

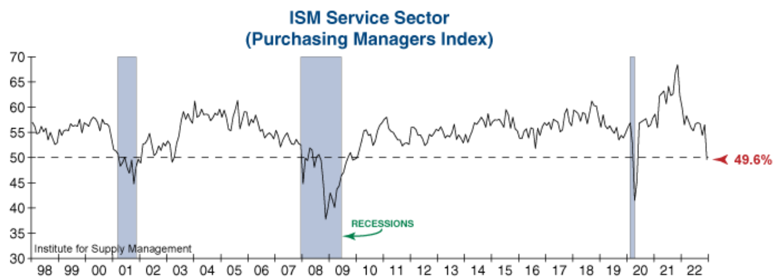
In response to an aging American population, a bipartisan retirement measure passing through Congress looks to assist Americans nearing retirement in the next decade. The measure, titled Secure Act 2.0, builds upon previous changes to retirement policies in 2019 and makes saving for retirement easier.

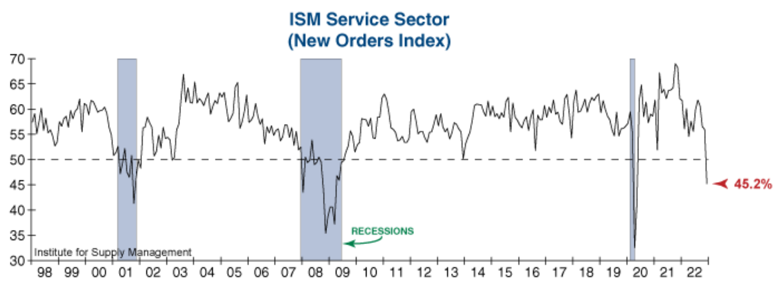
A major highlight of the Secure Act 2.0 is to increase the age at which required minimum distributions (RMDs) begin, allowing workers and retirees to leave funds in retirement accounts for longer, thus pushing off additional tax liability. In 2019, the RMD age was raised from 70½ years of age to 72. Now, the Secure Act 2.0 raises it to 73 beginning in 2023 and to 75 in 2033. These gradual changes are expected to accommodate and assist an incoming wave of baby boomers nearing retirement. With a few extra years before RMDs kick in, older workers have greater incentives to continue saving for retirement. Company-sponsored retirement plans will require automatic enrollments into 401(k) and 403(b) plans, whereas it is currently only optional for employers to do so. In these plans, employers must also set up a contribution rate between 3% and 10%, plus an automatic contribution increase of 1% annually until a range of 10% to 15% is met. This provision will go into effect beginning December 31, 2024.



Another key change introduced by the Secure Act 2.0 will be allowing employer contributions for student loan payments. This would allow employers to match contributions to employee retirement plans based on student loan payments, easing the journey of saving for retirement. In the case of an emergency, Secure Act 2.0 also allows for a penalty-free withdrawal of up to $1,000 a year versus a previous 10% early-withdrawal penalty for withdrawals made under the age of 59½. Secure Act 2.0 also raises the ceilings on catch-up payments made past the age of 50, with an emphasis on payments made between the ages of 60 and 63. (Sources: U.S. Congress; Internal Revenue Service)

US Economy – Is a recession in the cards?





The ISM Manufacturing Sector is in contraction. The ISM manufacturing index, also known as the purchasing managers' index (PMI), is a monthly indicator of U.S. economic activity based on a survey of purchasing managers at more than 300 manufacturing firms. It is considered to be a key indicator of the state of the U.S. economy. The ISM Service Sector suffered its third-largest decline on record last month as it shockingly plunged into contraction territory (readings below 50.0). Last month's massive -6.9 point drop was due in large part to a collapse in new orders (bottom chart), yet weakness was still broad-based as eight of its ten components showed declines. While services was one of the few remaining economic bright spots prior to this report, it has now joined the large and growing list of recessionary warning flags.