Ouch! Another awful year for the financial markets and the economy in general. The culprits were pretty much the same: inflation (the Federal Reserve increase rates 7 times in 2022 – 4 times in the 4th quarter!), the Ukraine war, supply chain issues, childish energy policies, runaway government spending, absurd southern border neglect and crime. A major overarching factor is our totally dysfunctional government. Hopefully the later will begin to change in 2023. Oh, and lest we forget, a new Covid variant is on the march. What a year 2022 was. But we are confident the real America will be back.

These many problems were reflected in the full year results. The DJIA was down -6.9%, the S & P 500 was down -18.1%, the NASDAQ was down -33.1%, the Bloomberg Aggregate Bond was down -13.1%. For the full year, performance on major indices was the worst since 2008! In welcome contrast, the fourth quarter was strong – some good employment numbers and a slow down in inflation. At the close of December there was an increase in speculation that interest rate increases could ease in 2023.

The international markets largely mirrored the US: negative results for the full year with improved results in the fourth quarter. The exception was Latin America which benefitted from strong commodity prices; they had marginally good results for both the full year and the fourth quarter. China ended the year in bad shape largely due to their lockdown policies which were viewed as a failure at year end concurrent with the rampant increase of Covid cases and the fourth quarter came to a close.

Things have been pretty grim for the past few years. We are by no means out of the woods yet, however, some of the problems should begin to ease later in 2023. We are pretty confident that is government becomes more rational, particularly regarding energy policy and spending, things will be OK. It would be a mistake to bet against a unified USA. Fourth quarter and full year results are detailed below.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **QUARTER Ending 12/31/2022** | **12 MONTHS Ending**  **12/31/2022** | **THREE YEARS Ending**  **12/31/2022** | **FIVE YEARS Ending**  **12/31/2022** |
| **DJIA** | 16.1% | -6.9% | 7.3% | 8.4% |
| **S & P 500** | 7.6% | -18.1% | 7.7% | 9.4% |
| **NASDAQ Composite** | -1.0% | -33.1% | 5.3% | 8.9% |
| **Bloomberg Agg. Bond** | 1.9% | -13.1% | -2.7% | 0.0% |
| *Mutual Funds* |  |  |  |  |
| Domestic |  |  |  |  |
| *Large Cap* |  |  |  |  |
| Growth | 3.1% | -29.9% | 4.7% | 8.3% |
| Value | 12.8% | -5.9% | 7.0% | 7.0% |
| *Small Cap* |  |  |  |  |
| Growth | 4.2% | -27.8% | 4.1% | 6.6% |
| Value | 11.2% | -10.2% | 7.1% | 4.8% |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  |  |  |  |
| International |  |  |  |  |
| Europe | 18.2% | -17.8% | 1.0% | 1.8% |
| Latin America | 2.8% | 3.1% | -8.7% | -1.6% |
| Japan | 10.6% | -13.1% | -0.6% | 0.0% |
| Pacific ex Japan | 11.0% | -19.0% | -0.0% | 0.8% |
| China | 11.1% | -25.2% | -2.1% | -1.7% |
| India | 0.5% | -10.9% | 8.5% | 2.5% |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **QUARTER Ending 12/31/2022** | **12 MONTHS Ending**  **12/31/2022** | **THREE YEARS Ending**  **12/31/2022** | **FIVE YEARS Ending**  **12/31/2022** |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  |  |  |  |
| Corporate Bond |  |  |  |  |
| Long | 3.5% | -24.4% | -5.3% | -0.7% |
| Intermediate | 1.6% | -13.3% | -2.7% | -0.2% |
| Short | 1.2% | -5.2% | -0.4% | 0.9% |
| Government Bond |  |  |  |  |
| Long | -1.5% | -30.0% | -7.7% | -2.7% |
| Intermediate | 1.2% | -11.3% | -2.7% | -0.4% |
| Short | 0.6% | -5.2% | -1.1% | 0.3% |
| Municipal Bond |  |  |  |  |
| Long | 4.0% | -11.9% | -1.7 | 0.7% |
| Intermediate | 3.4% | -8.2% | -0.8% | 1.0% |
| Short | 1.6% | -2.6% | -0.1% | 0.8% |

**Market Outlook**

We continue to be very cautious given all the current negatives; the risk of recession is a key concern.

As a result, we recommend no new equity investments at this time. Any new investment on further reductions in stock or longer terms bond positions should be reinvested in Ultra Short Term Bond funds, CDs or Short Term Treasury Bonds.

**MSM FINANCIAL STRATEGIES**

**1/8/2023**

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