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## Q4 2022 Newsletter

### Economy & Market Valuation

The US stock market showed some life in Q4 2022. Volatility in the market has come down. The US economy is not out of danger, but things are getting better. The reason is that inflation has peaked and is coming down. December CPI report showed month over month inflation growth was -0.1%, while year over year inflation was 6.5%. This is down from 7.1% as measured in November. Inflation is unmistakably on a downward path. The question now is how soon inflation can go down to the Fed target of 2%. Expectations are that, because of declining inflation, the Fed will further slowdown the pace of rate hikes. Current market expectations are for a 0.25% hike at the next meeting on Jan 31. We are getting close to the end of the current interest rate hiking cycle. If inflation rate keeps on dropping, we could see an end to interest rate hikes in the next of couple of months. The first step for the Fed would be to stop hiking interest rates and the second step would be to cut interest rates. We are not close to seeing a reduction in interest rates and it would depend how weak the US economy is in coming months. There is a chance that the US can avoid a recession in 2023. Labor market is very strong and US economy is expected to grow at a healthy pace in 1H of 2023. The risk is that if the Federal Reserve overshoots and hikes interest rates beyond what the US economy can bear, we could see a recession towards end of 2023.

### 2023 investment strategy

We have reduced the percentage of cash in our portfolio and increased the percentage allocation to high quality companies. We have increased our position in some of the companies to take advantage of the beaten down prices. One example is Amazon. Amazon's stock price was cut by half in the past 12 months, and we increased our position in Amazon recently. We think Amazon over invested during the pandemic and has near term profitability issues. But the business model is intact, and company will continue to grow in the cloud and retail space.

We are keeping an eye on the US economy and inflation and will stick to investing in quality companies. Our philosophy is to invest in quality companies and keep them for the long term.

We would like to thank the people who showed up for our annual meeting on Dec 4, 2022. We will be hosting an online session on Jan 28, 2023, using Microsoft Teams. Invite for the Jan 28 session has already been sent.