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Dear Valued Clients,

As we begin the new year, we want to review a number of items with you. 1) What we saw in the markets in 2022, 2) share some perspectives about the current state of the economy and its effect on your portfolios, and 3) discuss the implementations and strategies we are deploying to take advantage of the opportunities we are seeing.

One of the things we stressed during our end-of-year client meetings in 2021 was to not continue expecting the double-digit equity returns that we experienced in the previous two years. While we were not trying to predict 2022 returns, our attempt to manage expectations was well timed. It's hard to believe we began 2022 with the S&P hitting an all-time high on January 3rd closing at 4796, then slumped into a bear market in June, recouped most of those losses by mid-summer, then slid again as we started to worry about high inflation and a possible recession hitting market lows in mid-October. As we ended the year, here is how the major benchmarks performed as of December 30, 2022: Down Jones -6.86%, Nasdaq -32.51%, and S&P 500 -18.13%. Unfortunately for investors, it was not just equities that suffered this year as the bond market was down -13.01% (Bloomberg US Agg Index), Real Estate was -26.21% (S&P 500 Real Estate), and crypto-currencies took a big hit with Bitcoin (BTCUSD) -63.3% and Ethereum (ETHUSD) -62.1%. Inflation is at a 40-year high affecting the purchasing power of cash (Data from Morningstar and MarketWatch). This was the 7th worst loss for the S&P 500 since the 1920s, the worst loss for the Bloomberg US Aggregate Bond Index since it's 1976 inception, and the worst year for the 10-Year US Treasury since the 1920s (WealthofCommonSense). There has been literally no place to hide and the average 60/40 portfolio had its worst year since the global financial crisis (Bloomberg).

Several factors have contributed to the market volatility this past year- The financial repercussions of Covid still loom, inflation remained high globally, interest rates came up remarkably high and very quick, growth expectations continuously declined, geopolitical tensions dragged on longer than expected and investors have been fearing a possible recession in the US. While these issues will likely follow us into 2023, we feel we may be nearing their turning points.

On the global front, China has finally shown signs of a reversal in their zero-Covid policy and a positive response to their reopening, a signal that will hopefully lead to easing of supply chains and continued spending. While we must keep an eye on the Russia-Ukraine conflict and the risk of NATO involvement, the nuclear developments in North Korea, as well as China's activity with Taiwan, geopolitical crises typically do not have long-lasting effects on the market and only add to short-term volatility.

"Peak inflation" was probably one of the most overused terms in financial news this year. The Fed continues to stress they need more data behind inflation before they will stop their rate hikes. While we may have seen the peak, there is still a long way to get to the Fed's target of 2.5% inflation. UBS CIO believes that the Fed's decisions so far will cause a dramatic drop in inflation by next year, forcing them to potentially start cutting rates (UBS House View November 2022).

Finally, while the risk of a recession in the US is a big concern and hinges largely on the activities of the Fed, the typical signs that we are currently see for a recession are not yet present (NBER, Bureau of Economic Analysis, Bureau of Labor Statistics). While this does not mean we can't slip into a one in 2023, it is important to remember that recessions are a normal part of the economic cycle, not a systemic problem, and that average bear markets last 18 months. The stock market is a leading indicator and typically bottoms out before we would enter an actual recession. We may have seen the bottom, but that doesn't mean we can't come back down close to it again. **Most importantly**, we create financial plans and construct portfolios based on your needs and pursuing your goals, not based on how we think the market is going to perform in a given year.

Even in the current state of the economy and market, there are opportunities that we have not seen in an exceptionally long time. In the short-term, our CIO tactically favors defensives sectors within equities: Energy, Healthcare and Consumer Staples all of which have outperformed this year (UBS House View November 2022). High inflation typically favors Value over Growth, but we are beginning to see valuations in the market that are similar to the late 1990's and the beginning of the most recent 10-year bull market that are hard to ignore. For the long-term investor there are quality, growth opportunities that should not be disregarded. One of the positive outcomes of the Fed's rapid increase of interest rates are the current yields in Fixed Income. The 3-month Treasury Bill is currently yielding 4.48% vs. 0.06% one year ago (rates as of January 3, 2023) and we are locking in rates on Corporate and Municipal Bonds that the market has not seen in over a decade. More of our clients have been taking advantage of yield-oriented structured notes and we have also seen interest in Alternatives within private equity, credit and real estate offerings on our platform.

This year highlighted the importance of our **planning process** for clients. Our mission is to identify and help protect against potential financial roadblocks and give you the confidence to help you meet your needs and goals. We do not want the market to dictate the portfolio strategies we've implemented. The S&P was down approximately -25% at it's low in mid-October. This was immediately followed by one of the best October performances on record with the index +8.0%. While we feel the pain of a down market, we do not want to miss the upswings due to emotional selling. This is exactly why we always stress the importance of having a plan, staying invested and having a proper asset allocation.

While this past year has been confusing and stressful on our portfolios, we want to take this opportunity to thank you for your continued belief in our team. Throughout the year, we do our best to diligently monitor your portfolios and guide you through the uncertainty and we are so thankful for the opportunity to work with you as we navigate the road ahead. Always know that we are all available to discuss your needs and your concerns at any time. Our team's New Year's Resolution is to hopefully see more of you in person and return to "pre-Covid humanity."

We want to wish you and your families good health and good fortune for the new year!

All the best,

Howard, Rena, Steven and Karina

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